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# East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

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10 August 1982

# EAST EUROPE REPORT

## ECONOMIC AND INDUSTRIAL AFFAIRS

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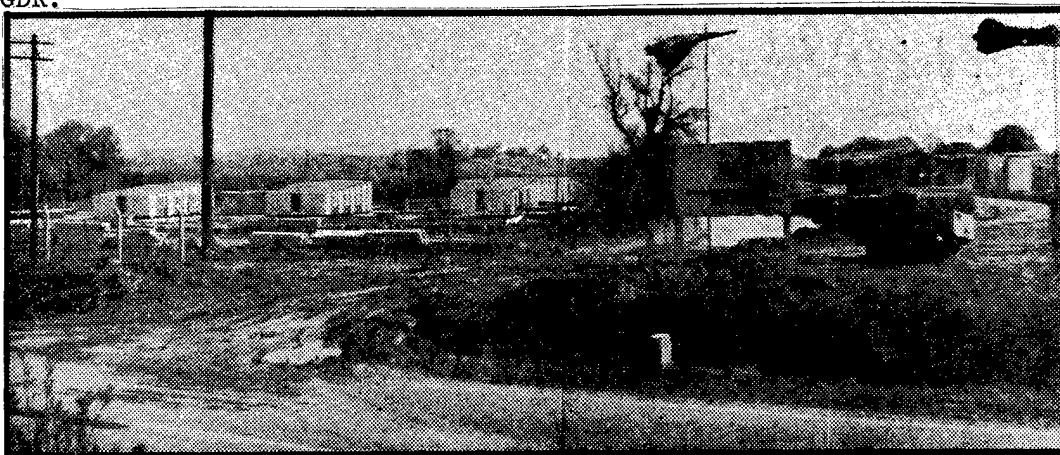
USSR FEARS FOR POLISH PORT LINKS: GDR BUILDS SUBSTITUTE

Stockholm SVENSKA DAGBLADET in Swedish 30 June 82 p 18

[Report by Nils Morten Udgaard]

[Text] Bonn (SVENSKA DAGBLADET)--On the East German island of Rügen in the Baltic Sea work has begun this year on a big new ferry station which in 1986 will be able to handle direct traffic from the Soviet Union, including wide-track Soviet railroad cars. In this way the Russians will get a secure connection outside of Poland to their 400,000 soldiers in the GDR and to their East German and western trading partners.

Near the little spa of Neu Mukran, southwest of Sassnitz, living and office barracks have been set up. One kilometer of the shore strip has been blocked off with a fence and iron poles are already in place on the ground. All of Neu Mukran will disappear and a switchyard of several square kilometers will be established with nearly 100 kilometers of railroad track and a special installation for the shift from track of the Soviet gauge to the European standard gauge. It was an East Berlin correspondent for the West German newspaper WESTFALISCHE RUNDSCHAU, Peter Noeldechen, that conveyed this in a report from the GDR.



*The little East German spa Neu Mukran is about to change into a gigantic switchyard.*

In connection with the construction work, a start was also made at dockyards in the Soviet Union and the GDR on the construction of three big railroad ferries. They will be used in shuttle traffic between the Soviet ports of Klaipeda in Lithuania--formerly called Memel--and the new port on Rügen, with connections with Stralsund, where a new and bigger railroad bridge will probably be built.

Political observers connect the project with Soviet uneasiness about future developments in Poland and an attempt to ensure themselves of alternative transport facilities to the west, if possible conflicts or armed clashes in Poland should lead to breakdown of rail connections across Polish territory.

Furthermore, the West Germans have said no to the construction of a similar ferry port on their Baltic coast.

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CSO: 3109/201

PROBLEMS, PERSPECTIVES OF CEMA CURRENCY SYSTEM

Prague HOSPODARSKE NOVINY in Czech 4 Jun 82 pp 8-9

[Article by Eng Petr Spacek, candidate for Doctor of Science, Federal Ministry of Finance]

[Text] In the process of international socialist integration, a CEMA currency system is gradually being created, based on a collective currency and on deepening ties to the national currencies of the member countries. All questions connected with the creation and the improvement of the currency and credit mechanisms of economic and scientific-technical cooperation between the member countries of the council--from conversion relationships (exchange rates) for non-trade payments, the creation of a collective currency and the founding of two international banks, right through the procedural documents for adjusting the financial activity of international economic organizations or the cost-accounting for the joint construction of large integrational facilities--are gradually appearing in the annual plans of the Standing CEMA Commission for Foreign Currency and Financial Issues, the first session of which took place in February 1963 in Prague.

In the first 15 years of CEMA's existence, accounting for the mutual trade relations of member states took place through bilateral accounts in clearing rubles. A system of short-term credit existed only in the form of technical credits on these accounts; long-term credits were provided only bilaterally and exclusively in goods.

Nevertheless, the first projects involving multilateral accounting among member countries were developed in 1949-1950 and were discussed, for instance, at the CEMA second session in August 1949. The Agreement concerning Multilateral Clearing was concluded, however, only on 20 June 1957.

[subhead illegible]

Based on the principles of the international socialist division of labor, which were approved in 1962, work was completed at a conference of

representatives of communist and worker parties of the CEMA member countries on an Agreement concerning Multilateral Accounting in Transferable Rubles and the Organization of the International Bank for Economic Cooperation (MBHS), which became valid 1 January 1964. The gold content of the collective currency of the member countries of the council was set at 0.987412 grams of fine gold.

Since 1964, almost all payments between CEMA member countries have been accounted for in transferable rubles. In the first year of MBHS activity, the volume of these payments reached 22.9 billion transferable rubles, and this has increased to the same extent that mutual trade and the level of contract prices have grown. In 1981, 140.2 billion transferable rubles of goods and noncommercial operations were accounted for through the MBHS.

Transferable rubles are an international credit money, issued in the form of entries on clearing rubles at the MBHS. They do not, therefore, have an independent existence; they arise and move from account to account in connection with the movement of goods. The fact that they are issued on the basis of concluded goods transactions means that they have a stable goods coverage but on the other hand there arises the problem of their so-called exchangeability for goods.

The 1964 change from bilateral clearing accounts to a single multilateral account and the replacement of the clearing ruble by the transferable ruble was not in and of itself sufficient to achieve actual multilaterality. Under contemporary conditions, the entire mechanism of mutual economic cooperation, from the coordination of national economic plans to the conclusion of annual protocols concerning the exchange of goods and the method of contract price formation, leads to a strict bilaterality of mutual relations. The result is, then, the maintenance of the bilateral nature of mutual claims and obligations of CEMA member countries, meaning that the transferable ruble continues to have a largely clearing character. This remains, then, a basically accounting unit.

This has been incorporated as well into the foreign currency financial division of the comprehensive program, which provided for, as early as 1971-1973, not only the development but also the implementation of measures to expand multilateral accounting with the aid of the transferable ruble, to apply to all forms of mutual foreign trade relations (including noncontingency trade and the multilateral balancing of the exchange of goods).

In the discussion of these issues, and in particular the results achieved in resolving them, the CEMA executive committee has adopted several measures in which it directs the appropriate CEMA agencies to work out a number of measures for the fulfillment of the provisions of the comprehensive program in the foreign currency area. The coordinator of the resolution is not only the commission but also the CEMA committee for cooperation in the area of planning activities and the CEMA Standing Commission for Foreign Trade.

Despite a number of separate measures, the tasks of the comprehensive program in this area are unfulfilled. There are clearly many reasons, chiefly the

failure to implement to the requisite extent measures to increase coordination of national economic plans at both the material and the valuational level, and systemic measures for the development of international specialization and cooperation in production and the improvement of foreign trade relations; measures in the foreign currency financial sphere should be linked to all these.

In the case of the transferable ruble, the problem of multilaterality focuses on the need to assure its true transferability. This is a long-range task; the preconditions for the resolution of this have not been created even at the beginning of the 1980's. The true transferability of international monies means exchangeability for goods and, in the final analysis, also for the national currencies of the countries participating in a given system of international accounting.

The core of the problem is the fact that a naturalized trade relationship, such as in CEMA, is necessarily always a bilateral relationship, because one is dealing with the relationship between one set of use values and another. Deliveries of specific goods are conditioned on the counterdelivery of goods of the same value. In contrast to this, a monetary or value relationship, even if only between 2 partners, is always a multilateral relationship. In this relationship, it is not a matter of the relation of one type of good to another but of a relationship of goods as value to monies; i.e., to the representative of value and a general equivalent.

From this stems, among other things, the attempt to fill out the monetary functions of the transferable ruble. In implementing the directive of substantially intensifying the development of the national economy, it is desirable to utilize in a qualitatively new way everything linked to participation in the international division of labor. Bilaterality means, however, that a national economic complex is limited in international exchange and in cooperation and specialization by the potentialities of a partner with a lower level of economic sophistication and with a lower level of integration into the international division of labor.

In the materials of the Standing Commission for foreign Currency and Financial Issues an approach is being applied, according to which the expansion of multilateral accounting in transferable rubles, and thereby also their true convertibility, is conditioned by the development of multilateral balancing, which itself is dependent on a number of factors concerning gross production, planning and foreign trade.

These factors are usually described as follows:

- providing the CEMA market with goods of high quality and eliminating shortages in a number of goods;
- the multilateral coordination of national economic plans and the development of joint planning activities;
- expanding international cooperation and specialization in production as well as additional, more sophisticated forms of economic and scientific-technical cooperation;



- the improvement of cooperation in the area of foreign trade, including its organizational forms;
- improving contract price formation, etc.

Most of these materials contain the thought that a multilateral accounting system could handle the current CEMA currency and credit mechanisms, provided that preconditions in other spheres were created.

On the other hand, some see obstacles in the currency mechanism itself; it is linked neither with the national currencies of the CEMA member countries (the conditions and method of implementation of the relevant measures were to have been worked out in 1973) nor with convertible currencies. But primarily, an autarchic tendency has persisted during the 1970's in the internal mechanisms of management and national economic planning of most of the CEMA member countries, at least in the area of value relationships. Internal price mechanisms have been more or less isolated from world dynamics particularly contract prices; the transmission of economic impact or losses from the international division of labor to the management of a khozrachat unit has been relatively slight, etc. This reality becomes clearly evident in efforts at the introduction of economically justified and mutually agreed exchange rates or national currency coefficients.

#### Dynamics of Contract Prices and Inflation

After 1975 the CEMA member countries agreed to annual changes in contract prices, which are now established on the basis of the average prices of the world capitalist market for the preceding 5 years. Despite the fact, then, that the dynamics of contract prices is less and, as a result, the distribution of fluctuations over a 5-year average does not have such a sharp trend, this practice has certain problems.

The system of price formation has a substantial influence both on a change in price relationships and on the overall price level. Changes in these relations are incorporated primarily in the formation of external financial equilibrium and the balance of payments of every member country; at the same time these changes are the impulse for a restructuring of the structure of production and consumption. In the final analysis they also serve as a factor in the implementation of intensive resources for economic growth.

A change in the overall price level has, a negative impact; it is manifested in a disruption of the stability and purchasing power of transferable rubles and the accuracy of its exchange rate. The internal value of the transferable ruble, its purchasing power, develops in relation to the movement of contract prices. In connection with this, a problem has surfaced in assuring the equivalency of accounting over time, because individual balances (often resulting from the failure to provide contracted deliveries of goods) appear in mutual trade in the following year. These are then paid at higher prices, meaning that the creditor country does not receive an exact equivalent. By the same token, this leads to a reduction in the real values of various monetary funds of the CEMA international banks as well as joint enterprises and international economic organizations.

In connection with this, the executive committee has directed the Standing Commission for Foreign Currency and Financial Issues to solve this problem, which has arisen basically because an economically justified change in principles of contract price formation was not accompanied with corresponding changes in the foreign currency financial mechanisms.

The exchange rate of the transferable ruble in terms of freely exchangeable currencies is used for the conversion of adjusted world prices to contract prices (in practice the exchange rate of the Soviet ruble has been used for the most part, which is actually a 20-year holdover from the earlier clearing ruble). A gradual shift is taking place to an exchange rate devised by MBHS, which differs moderately from this.

Since 1974, MBHS has used, along with most world central banks, a basket of currencies to establish the exchange rate of its own currency. The exchange rate of the transferable ruble is stable in relation to the unit representing this basket, even while it fluctuates in relation to the currencies comprising the basket, in connection with changes in their mutual exchange rates. If one currency is strengthened, for instance the dollar, against the transferable ruble, simultaneously another currency, for instance the mark, becomes devalued, and vice versa. The exchange rate is fluctuating at about 0.70 to 0.75 transferable rubles to the dollar.

Given this situation, however, the exchange rate of the transferable ruble is not influenced neither by price factors, by balance of payments factors, or by supply and demand. It is, then, continually accurate (to the extent to which contract prices, with a lag, approximate world prices) but causes a decline in the purchasing power of the transferable ruble with an increase in contract prices. Its internal value, therefore, is connected to the development of the real value of the basket of freely exchangeable currencies. In this way not only justified changes in world prices, caused by the increased value of goods, but also global influences, primarily of an inflationary character, are transmitted to the international market within CEMA. A stable exchange rate for the transferable ruble thereby allows a price increase, while it would be economically effective to have a variable, constantly revalued exchange rate, which would prevent or slow inflation.

[subhead illegible]

The decline of the purchasing power of the transferable ruble and the simultaneous changes in retail prices in most of the CEMA member countries have brought new problems to the so-called conversion relations of national currencies for nontrade payments.

The agreement concerning accounting for nontrade payments, which historically is the first multilateral exchange rate agreement among socialist countries, was signed by the Ministry of Finance 8 February 1963, practically on the eve of the first session of the CEMA Standing Commission for Foreign Currency and Financial Issues. The principle of the agreement, which is still in force, consists of the transfer of costs and outlays of a nontrade character (at first primarily the costs for maintaining diplomatic offices)

in retail prices to the level of similar costs in contract prices. In order for this multilateral system to function, it is necessary to agree upon, on the one hand, mutually interrelated exchange rates for national currencies (called officially conversion relationships), and, on the other hand, on a mechanism for the conversion of balances in national currencies to transferable rubles and a method for establishing their equivalents in goods.

The exchange rate problem is being resolved through a comparison of the purchasing power of national currencies. It is based on an agreed basket of goods and services; the problems of establishing the structure of these baskets, the selection of representatives and the determination of prices is, however, complicated due to the differing conditions in the eight participating CEMA countries (excluding the Vietnamese Socialist Republic and the Republic of Cuba). Thus, often sharp changes in retail prices in certain countries are incorporated into exchange rates tardily and only partially.

Because the exchangeability of national currencies for transferable rubles has not been introduced, a two-step calculation is used for their conversion. First a balance in, for instance, marks is clerically converted to Soviet rubles with the appropriate exchange rate; this result is then divided by a so-called coefficient expressing the relation between Soviet retail and contract prices for a certain basket of goods and services. Until 1971 this coefficient was 3.4, since the replacement costs for one transferable ruble amounted to Kcs 34. After this, when the main component of nontrade payments became tourism (roughly two-thirds), this coefficient was reduced to 2.3. Even so, however, the level of replacement costs per transferable ruble in tourism exceeded in most countries the replacement costs in the commercial sphere, which is precisely the opposite relationship from the one with convertible currencies.

In subsequent years, the relatively lower effectiveness from the acceptance of tourists was emphasized by a growth of contract prices. For the same balance of earned national currencies expressed in transferable rubles, the country accepting tourists receives a lesser volume of goods on an annual basis. Therefore, within the framework of the commission a dual reduction in the coefficient has already been adopted, to 1.9 and to 1.7 last year. If demanded by bilateral interest, a lower coefficient (for instance, 1.6) may be used in the relations of certain countries, or a higher one (even 2.3 exists, in cases where the countries have not decided on a satisfactory modification of the exchange rates for the national currencies themselves).

Until the resolution of the comprehensive program's task of introducing a single exchange rate for national currencies in relation to the transferable ruble--i.e., basically a unification of commercial and noncommercial exchange rates--the problem of assuring equivalent accounting for noncommercial payments will be an ongoing issue to be resolved within the framework of the Commission for Foreign Currency and Financial Issues. This year work is being completed on improving the methodology for establishing and making more precise national currency exchange rates and the conversion coefficient,

in which will be anchored, among other things, the decisive share of tourism as a percentage of noncommercial payments and a more adequate composition of consumption baskets.

#### National Currency Coefficients

The official exchange rate of the koruna in relation to both the transferable and the Soviet ruble of Kcs8 to the ruble comes from the gold content of the monetary units declared by law. With the exception of specific cases it is, however, necessary to use other than the official currency relations for accounting conversions and statistical purposes.

In addition to the official currency exchange rates established by law, and based on the relationship of the declared gold content of the monetary units, there has gradually arisen a system of currency relationships, of which some have an exchange rate and others rather a comparative character:

- hard currency exchange rates for noncommercial payments;
- agreed currency coefficients or national currency exchange rates in relation to the transferable ruble, and mutually among themselves according to the so-called Karlmarxstadt agreements;
- special conversion coefficients (established within the framework of the so-called Berlin methodology);
- internal mechanisms of an exchange rate and a parametric character, and supplementary mechanisms.

The problem of utilizing national currency exchange rates arose in the second half of the 1960's during economic reforms in certain member states. The Commission for Foreign Currency and Financial Issues concerned itself with this, beginning in 1968, in a program of research into the methodology of determining the purchasing power of currencies. In this process, five basic spheres of the presumed utilization of exchange rates were defined:

- efficiency calculations for projects involving international cooperation;
- mutual accounting;
- assurance of the equivalency of mutual economic relationships;
- the possible introduction of mutual interchangeability between the transferable ruble and the national currencies of the CEMA member countries;
- strengthening of khozraschot relations among foreign trade organizations and production enterprises within a country, and the intensification of international cooperation between economic units of individual countries.

At the 25th session of the Standing Commission for Foreign Currency and Financial Issues in October 1973, the Agreement concerning the Introduction of Mutually Agreed Exchange Rates or National Currency Coefficients in Relation to the Collective Currency (the transferable ruble) and amongst Themselves, the so-called Karlmarxstadt agreement, was signed. The coefficients were established on the basis of purchasing-power parity, according to wholesale and contract prices in the structure of all national production and export. Their utilization is limited primarily to carrying out calculations for judging the efficiency of measures connected with the

## The Berlin Methodology

The necessity of converting various costs that have been realized in national currencies for the needs of a partner country into transferable rubles or another currency has increased constantly since the end of the 1950's. Among the first documents of the commission was the so-called Berlin Methodology of Cost-Accounting Expressed in Internal Prices and Tariffs of CEMA Member Countries, which was designated above all for construction project accounting.

The basis of the methodology consists of the establishment of special conversion coefficients for the conversion of budgetary (or actual) values of a construction project, or of costs, from national currencies to transferable rubles. The overall costs of a construction project are classified into labor value added costs (wages, salaries, a portion of overhead costs and an appropriate percentage of societywide costs designated for labor force replacement) and costs of a material nature (materials, equipment, logistical, capital asset depreciation, etc.). Labor value-added costs are converted by the method used for noncommercial payments (for instance, costs in korunas are converted to Soviet rubles at an exchange rate of 10 to 1 and are then divided by a conversion coefficient, now 1.7, to yield transferable rubles). Costs of a material nature are converted by a coefficient calculated as a weighted average of a number of coefficients stemming from the relationships of internal wholesale and contract prices of relevant goods and services (for instance, for Orenburg-type projects there are several tens of individual coefficients). So-called representative goods are selected for their calculation, the volume of which amounts to a minimum of 50 percent of budgeted values.

The use of the so-called Berlin Method was not widespread initially but began to be applied on a large scale at the beginning of the 1970's for large integrational projects and the construction of joint enterprises. As with most methodological documents, the Berlin Method has also been modified (in 1972 and recently). Its advantages and disadvantages may be summarized concisely: it makes possible cost-accounting where exchange rates and currency exchangeability do not exist but the agreed coefficients may be used only for a given project and their calculation is very laborious. It may not be used in the area of so-called more advanced forms of economic cooperation, especially in specialization, cooperation and the initiation of direct relations. It is a matter then of a specific, temporary methodological instrument, which will be surpassed with the introduction of unified national currency exchange rates for the CEMA member countries.

## Convergence of Structures of Economic Mechanisms

It is clear that the intentions of the comprehensive program in the foreign currency and financial sphere will be fulfilled over a substantially longer time period than appeared probable at the beginning of the 1970's. In the second half of the 1970's, new realities appeared throughout the entire world economy that became incorporated subsequently into foreign trade and

foreign currency financial relationships within the CEMA framework. One of the first steps has been the introduction of a more flexible price formation system. In payment relations between several CEMA countries, convertible currencies have even begun to be used (for instance for the delivery of goods in excess of the amounts established in the annual protocols). Overall, however, the accounting system has come to terms with this new situation, within the constraints of limited possibilities; there has been no gross accumulation of deficits or surpluses for specific countries, and the MBHS credit system is dealing with the deepening imbalance in the turnover of goods, albeit with some tension. Providing for the financing and accounting for large integrational construction projects has been an undoubted plus. The effectiveness of the multilateral system, at the same time, also assists bilaterally adopted measures in the area of credit.

The basic problems of the currency mechanism--the achievement of true transferability of collective currencies, a substantial improvement in the exchange rate system, the exchangeability of national currencies and the utilization of the transferable ruble in relations with third countries--are being shifted to the 1980's.

In improving the currency system, it is being demonstrated that it is critical to adopt a comprehensive approach within the framework of the entire mechanism of socialist economic integration, where the main factor is a qualitatively higher level of national economic plan coordination. It is, however, impossible to achieve qualitatively new joint planning activities corresponding to a developed integration process without the realistic linking and balancing of the material and value aspects of planning.

The basis of an improvement in the integration mechanism, including its currency instruments, consists of qualitatively new internal systems of planned national economic management, in which there is gradual movement to an organic integration of the planning activities themselves with expanded khozraschot relations. This is a trend evidencing itself in most of the European CEMA member countries. (For instance, as of 1 January, the role of value categories and instruments was substantially strengthened in the planned management system of the Peoples Republic of Bulgaria).

The national economic complexes of the CEMA member countries are linked to the international division of labor so that further economic development is conditioned not only by effective participation in external economic relations but also by the integration of the value criteria of the world market into domestic economies. Foreign commercial prices, hard-currency replacement costs, parametric exchange rates, etc., are becoming an inseparable component of economic efficiency criteria and gradually of the planning process itself.

The approach of the CEMA member countries to the improvement of planning activities and increasing the efficiency of value and of khozraschot relations has a common base. Systemic measures aimed at the implementation of intensive factors of economic growth thus lead to the convergence of the economic mechanisms of individual countries, although instruments or

international division of labor. They should find broader application in the sphere of international specialization and production cooperation, in the founding and activities of joint ventures, international economic organizations, research institutes, construction laboratories and the like.

At the beginning, these coefficients were used for the preliminary accounting for various projects until final amounts were established as well as the method for covering them. Recently their use has been expanding gradually. In the USSR they are even used to establish the prices of machinery and equipment imported within the framework of specialization and production cooperation and in Interatominstrument, among others, for transfers between the home office and economic affiliates. They have likewise been used to balance mutual claims during modifications of state borders, during accounting for the construction of facilities for diplomatic offices, etc.

The expansion of the Karlmarxstadt coefficients is added by the fact that exchange rate instruments are utilized to a greater extent in internal management mechanisms and that their amount usually corresponds to, or approaches, that of internal exchange rates. This development has progressed most in the People's Republic of Hungary, where the bank sets the exchange rate of the forint in relation to the transferable ruble and publishes it on an exchange rate sheet. In the CSSR, the koruna coefficients in relation to the transferable ruble and the national currencies of the CEMA member countries are adjusted by means of Internal instructions of 15 February 1974 for implementing the Karlmarxstadt agreements, and the supplements issued by the Federal Finance Ministry, the Federal Ministry of Foreign Trade and the Czechoslovak State Bank.

In view of the annual modifications of contract prices and of the movement of wholesale prices, it is essential to alter the coefficients routinely. Changes were introduced as of 1 January 1977 and 1 August 1981; an adjustment is expected 1 January 1983 and then two or three times in each 5 year plan.

The introduction of national currency coefficients was the first step in fulfilling the tasks of the comprehensive program for researching, between 1976 and 1979, the possibilities and creating the conditions for the introduction of a unified exchange rate for the national currency of each CEMA member country, although the decision concerning its introduction, as well as its duration, was to have been made in 1980.

During the discussions of the Standing Commission for Foreign Currency and Financial Issues it became clear that it would be impossible to count on a rapid resolution of this problem, both because great differences exist between wholesale and retail prices and because there is an inadequate level of systemic preparation. The introduction of a unified exchange rate for national currencies even in individual countries is a long-range task. It is still more difficult to achieve this objective multilaterally, where these exchange rates are to be mutually linked. A precondition is the achievement of an organic integration of internal economic mechanisms with CEMA currency and price mechanisms.

indicators differ. What is critical is that they be directed at an increase in efficiency and the achievement of increased final national economic results.

The process of socialist economic integration, however, demands a conscientious and coordinated approach in this area as well: it is easier to proceed jointly from the very beginning than to adapt subsequently instruments that are already functioning. Therefore the question has been coming to the fore recently of the convergence of economic mechanism structures, which relates as well to value instruments.

The convergence of economic mechanism structures has immediate importance for the development of international specialization and production cooperation and for the development of direct relations between the economic organizations of the CEMA member countries. This is a matter of a higher form of economic cooperation, which requires similar *khozraschot* conditions for the production units of the partner countries, as well as foreign currency financial conditions, such as mutually agreed and actually functioning foreign currency exchange rates, specific forms of exchangeability of national currencies and the transferable ruble, etc.

World political and economic development in recent years has again confirmed that the proper path for the participation of the socialist countries in the international division of labor is through the priority incorporation of national economic complexes into the process of international socialist economic integration. In the current stage, the coordination of national economic plans resulting in the negotiation of annual protocols concerning the exchange of goods is already inadequate. Investment policy objectives and economic development strategy are being coordinated, steps are being taken toward joint planning activities; the importance of long-range target programs of cooperation is increasing. Among upcoming tasks will undoubtedly also be gradual measures in the sphere of value relationships, on the basis of which there will be movement toward qualitative changes in the currency systems of the CEMA member countries.

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CSO: 2400/296



ECONOMIC UNIVERSITY PRESIDENT VIEWS DEVELOPMENT, STRUCTURAL CHANGES

Prague NOVA MYSL in Czech No 6, 1982 pp 11-23

[Article by Stanislav Hradecky, rector, Prague College of Economics:  
"Intensive Development and Structural Changes"]

[Text] The complexity and demanding nature of the conditions in which our national economy is developing are turning the attention of theoretical and managerial employees to the problem of national economic structure and the character of future structural changes. A close link is generally recognized between the national economic structure and scientific-technical development, the intensification process and the overall effectiveness of social labor. The structural problem is also emphasized by the overall development of the world economy, especially with the great fluctuations in the world prices of raw materials, fuel and energy. Increased attention is being devoted in contemporary economic science worldwide, in socialist, capitalist and developing countries, to the theory and practice of structural changes as a factor in economic growth.

We as well are striving for intensive development, for the full utilization of science and technology for a substantial and permanent increase in overall national economic effectiveness. This is, as the conclusions of the 16th congress indicate, a long-range strategic line for future economic development. At the 16th congress, Comrade Gustav Husak emphasized the mutual interdependence of the conditions for the practical implementation of this strategy with these words: "We must much more consistently implement the long-range economic strategy of high-production efficiency and the quality of all work. The bases for this are a shift in the economy to a path of intensive growth, efficient structural changes in management, the rational utilization of production potential, a high level of frugality in the use of and in the valuation of all resources, an improvement in management, the broad development of workers' initiative, the deeper integration of our economy into socialist economic integration and the international division of labor....Science and technical progress are the determining factors in intensification and the most powerful source of increased productivity of social labor" (16th CPCZ Congress, Prague, Svoboda, 1981, p 26)

Decisive for the intensification of the production process is the ability of the national economic structure to adapt to changes in the conditions of

development. Intensification is realized in particular in the form of and through structural changes. Science and technical progress are applied in the form of production and technological innovations and through the creation of completely new fields of production. Science, technical progress and innovation are then the moving force of structural changes. Structural changes have a substantial influence on the efficiency of a single production process and thereby on the overall production process. Structural changes are one of the most important factors in the intensification of our economy and therefore a condition of its growth.

#### Description of Development of National Economic Structure

Industry has occupied the leading position in our national economic structure from the beginnings of socialist construction and it has strengthened this position during ongoing development.

From 1948 to 1980, industrial production increased almost 13 times. Between 37 and 43 percent of all investment has been directed to industry in individual 5-year plans and the number of industrial employees has increased from 30 percent of the work force in 1948 to 38 percent in 1980. In 1979, industry was responsible for a full 63 percent of national income formation.

The structure of industrial production has seen great changes. While in the prewar republic consumer industries dominated the value of output, an extensive restructuring of all industry began with the first 5-year plan. In particular, the development of industry producing capital assets was accelerated. This orientation was called for by the need for extensive reconstruction and modernization of the entire production base and the mechanization of agriculture. During the first 5-year plan, Czechoslovakia, as the most industrially advanced, popularly democratic state, fulfilled the role of supplier of machine tools and heavy industrial goods for the industrialization programs of the other popularly democratic countries. In view of the international situation--this was the period of the cold war and of the sharpest possible international tension--an important task of industrial development was the assurance of the country's ability to defend itself.

The development of heavy industry, especially the engineering and metallurgical industries, despite a certain lessening of tension, continued in subsequent periods. The metallurgical-engineering complex became the core of Czechoslovak industry.

In 1978, 47 percent of all industrial employees worked in these sectors, which absorbed 36 percent of all industrial investment and produced 39 percent of industrial goods. The construction of new facilities for the metallurgical industry (the New Metallurgical Works of Klement Gottwald in Kuncice and the East Slovak Ironworks in Kosice) had greatly influenced the structure of industry. In the production of pig iron, steel and rolled materials, Czechoslovakia has become, on a par capita basis, one of the leading countries of the world. However, in view of the high material-intensiveness of our national economy and also of our engineering industry, this cannot be considered an unambiguous advantage of our economic structure.

Metallurgical production was hampered by its internal structure, in which for a long time there was a low percentage of thin sections, sheets and high-quality steel. This shortcoming has been gradually eliminated by the construction of new rolling mills and of new facilities for the production of high-quality steel.

In upcoming years, the weight of the metallurgical industry should not increase but rather decline. Structural changes will, however, continue within the product mix of metallurgical production in the direction of a greater percentage of high-quality materials and thin sections. Among the most serious structural objectives of the upcoming period will be a substantial cutback in the consumption of metals.

The engineering industry, which was one of the leading branches even in the capitalist republic, has seen a rapid expansion since the 1950's. Numerous new factories have been built, new products have been introduced, for instance, diesel and electric locomotives, modern textile machinery, metallurgical and rolling equipment, bearings, chemical equipment and many other engineering products.

The structure of our engineering industry compares with that of the leading industrial states of the world. Precisely this breadth of product line, however, has been and continues to be a weakness in our engineering industry. Too broad a product mix has resulted in a low level of mass production, specialization and thereby also high production costs. Technical parameters have lagged behind world levels; innovation processes could not be stimulated by research over the entire breadth of the product mix; and most engineering sectors have continued to be very raw material and energy intensive. Only slowly has production been initiated and developed in the most progressive engineering sectors, such as electronics, which in spite of a high growth dynamic in the 1970's, is still not capable of meeting the needs of the national economy and influences the development of many engineering and other branches. Among the most significant structural changes, the importance of which will only become evident in the future, is the introduction of the production of equipment for nuclear energy generation, for which we are, in conjunction with the Soviet Union, the sole CEMA producers.

There have also been deep changes in the structure of the chemical industry, whose importance is increasing steeply throughout the world. In the years 1948-1980, the chemical industry marked its greatest production increase, even though its share of total industrial production was less than in certain industrially mature states. Nor does it yet correspond fully to our needs. In the first 5-year plan, the main concern was the development of a material base for other chemical sectors (inorganic chemistry); construction and undertaking of facilities for the production of rayon fibers and medicines. In the 1960's, additional new facilities were built, for instance, for the production of synthetic rubber, industrial fertilizers, chemical fibers, synthetic leathers and other plastic materials.

The gradual construction of two petrochemical refineries for processing Soviet crude oil has fundamental significance for the entire national

economy. On the whole we can state that, with the development of the chemical industry, a modern raw materials base has been created for a number of other branches and for the chemicalization of the national economy.

In the upcoming period there will also be important structural changes in the Czechoslovak chemical industry. Given an overall slackening in the growth rate, the percentage will increase of so-called low tonnage and medium-tonnage chemicals, which are less demanding on energy consumption, and require a high percentage of skilled labor. Specialization agreements signed with the USSR and cooperation with other CEMA members are very advantageous for our chemical industry.

In the structure of the Czechoslovak National Economy, importance of the construction industry, which has assured a substantial portion of the volume of investment activity, has increased systematically since 1948.

The volume of construction work [up to] 1980 has grown more than 13 times, with an average annual increase of 8 percent. The gradual industrialization of the construction industry, prefabrication, the standardization of construction elements, the elimination of a seasonal working pattern, the utilization of nontraditional building materials and progressive work methods contributed to a more than sevenfold increase in the productivity of construction workers between 1948 and 1980.

The Czechoslovak construction industry has handled successfully the construction of extensive and complex investment units, water management works and transportation projects. It has efficiently contributed to the implementation of structural changes and to overall economic growth. Nevertheless, in this industry several on-standing negative phenomena and trends complicate the shift of the economy to intensive development. This concerns, for instance, a high degree of uncompleted operational startups and cost overruns. There is significant underutilized potential in materials and energy consumption, machinery utilization and in the use of the work day. Nor does the internal structure of construction facilities fully correspond to the current needs of the national economy.

Regarding the consumer goods industry, it has belonged since the prewar republic to the traditional industrial sectors. This is especially true of the textile, footwear, glass, ceramics and woodworking industries. After 1948, the consumer goods industry as a whole developed more slowly and its share of total industrial output declined. The pace of development, however, has varied in specific time periods. For instance, despite initial stagnation, the 1960's and 1970's were times of relatively rapid growth in the glass and the graphics industries. In recent decades it has also been possible to note a sharp increase in the production of fiberboard, plywood, furniture, technical glassware, technical fabrics from chemical materials, nonfabric textiles, etc.

Structural changes in the consumer goods industry will continue in the direction of the development of traditional sectors based on domestic raw materials, skilled labor and export capability. The needs of the domestic

market and the demands of the population will also influence the structure and overall development of individual sectors of the consumer goods industry.

The fuel and energy base has an irreplaceable role in the structure of the national economy. In the consumption of primary energy resources, domestic solid fuels dominate, the percentage of which, however, has declined, especially since 1960, in favor of imported crude oil and natural gas. In 1960, enriched fuels represented 9.1 percent of overall primary energy resources but 34.9 percent in 1979, with a trend toward future growth.

Even though this percentage is lower than in most developed countries, it is desirable to reduce the growth rate of crude oil consumption, given the current increase in the percentage of crude oil and natural gas being used for chemical processing. The main reason for this is the sharp increase in the world price of crude oil. The role of domestic fuels, especially of coal, will increase in the energy balance.

In the extraction of brown coal, including lignite (96 million tons in 1980) and of bituminous coal (28 million tons) we belong, on a per capita basis, among the leading world producers. A high level of extraction has been made possible by an increase in mining and transportation mechanization, especially in the area of high-capacity excavators, which has resulted in a significant increase in labor productivity. In recent years, however, mining conditions have worsened, especially for mining at greater depths. Direct and derivative investment in mining is increasing, thus raising extraction costs. It is estimated that this increase during the Seventh Five-Year Plan will amount to 30 percent of current costs.

About one-half of the mined brown coal and lignite is consumed for the generation of electrical energy. We produce roughly 88 percent of all our generated electricity in thermal powerplants, with the remainder generated at hydroelectric plants (6 percent) and at nuclear power-plants (6 percent). The production and consumption of electricity has increased since 1948 by a factor of almost 10, reaching 72.6 billion kilowatt hours in 1980. This increase has been made possible by the extensive construction of thermal powerplants, especially near coal sources, which are being constructed in units of higher and higher output (up to 500 megawatts). Likewise, a number of waterworks and powerplants have been built, especially on the Vltava and Vah Rivers.

By the end of the Seventh Five-Year Plan, increases in electrical energy are to be covered by nuclear powerplants. In 1980, operations began at the first Czechoslovak nuclear powerplant at Jaslovske Bohunice. Each of its two units has a capacity of 440 megawatts. During the Seventh Five-Year Plan, construction will be completed on a second powerplant at Jaslovske Bohunice (with four 440 megawatt units) and at Dukovany. During the Eighth Five-Year Plan, construction is planned for two additional nuclear powerplants, one at Malovice near Ceske Budejovice and one at Mochovce near Nitra. By 1990, nuclear powerplant capacity is to increase from today's 880 megawatts to 8,280 megawatts.

The development of nuclear energy represents one of the most profound and far-reaching structural changes in the entire national economy.

The development of our national economy in the past 36 years has been successful. Deep structural changes, which have placed our economy on a par with the most developed industrial countries of the world, are a result of the economic policy of the CPCZ, which has proceeded according to the scientific, Marxist theory of the building of socialism, and the work of our mature working class, farmers and working intelligentsia. Our current level of economic development has not been unambiguously direct. It has not come about without shortcomings and mistakes that had to be corrected. We have not always proved ourselves capable of utilizing fully the advantages that the socialist method of production and socialist production relationships provide. We have not always shown ourselves capable of reacting in a timely and effective manner to changing internal and external conditions. Our economic successes, however, are clearly evident. Despite all the complications and difficulties, despite the numerous structural problems of our economy, these successes provide a solid starting point for further effective national economic development based on efficient intensification.

#### Requirements of Intensive Economic Development

The requirement for an intensification of further economic development, which was formulated with such urgency by the 16th CPCZ Congress, is in no sense either new or specific to our economy. An orientation toward the more efficient utilization of intensive factors is a necessity for all socialist countries. This is confirmed by documents of the party congresses and in particular by the economic policies being implemented by our fraternal parties in the other socialist countries. The requirement for intensive development has not fallen from the sky. It has not been brought about solely by a shortage of raw materials and the sharp fluctuations of world prices; it is not a question, that is, of a "state of emergency" brought about by these factors.

Intensive and extensive factors act together in every aspect of expanded socialist production. This coexistence was described by Marx in *DAS KAPITAL*, where he speaks of an intensive and an extensive type of production. He defined production as expanding extensively if the area of production is expanded and as expanding intensively if more efficient means of production are utilized.

Intensive elements of development are contained within, and exert an influence as well on, those phases of socialist construction designated as extensive. They exert an influence along with the extensive elements, and concurrently with them. The critical consideration is which of the factors are predominate and determinate for a given type of development. The need to use intensive factors becomes pressing as factors of an extensive character are gradually exhausted or become unavailable. The necessity of turning to intensive economic development does not follow, however, only from the exhaustion of possibilities for economic growth. It is also a question of a process equivalent to mature socialism, which flows from its

very foundations. The intensification of a socialist national economy belongs among the most profound, and at the same time most complex, changes in socialist production. In its difficulty as well as its economic and social consequences it is comparable to socialist industrialization.

Extensive and intensive types of production are always linked to structural changes. With extensive production, structural changes are realized through a quantitative increase in the factors of production newly integrated into production. The overall amount of social labor functioning in the economic cycle increases. At the same time, the allocation of social labor to specific production groups changes in the sense that through the reallocation of resources (especially investment) the material preconditions result for structural changes in production branches and in the entire national economy.

In the intensive type of production, it is a question of producing more products with greater use characteristics with the same or fewer inputs of resources. Expanded intensive production is based on an increasing level of resource utilization and in no sense on their quantitative expansion. The systematic increase in resource utilization belongs among the key conditions of the intensive expansion of production and influences in a decisive way economic development and the proportionality and structure of the national economy. Increasing resource utilization leads to the freeing of factors of production, which is a basic characteristic and condition of the intensive type of production. Latitude for the improvement of the structure of the national economy depends precisely on such a freeing of factors of production.

The relative and absolute freeing of factors of production is an essential precondition of the creation and expansion of latitude for the reallocation of social labor in favor of a higher level of satisfaction of the needs of society. Only should it lead to a relative and absolute saving of labor resources, materials and energy may we expand the production process. The qualitative renewal of existing resources in the form of resource conservation is becoming an essential production condition for quantitative expansion.

The process of national economic intensification is dependent on the interrelationship of extensive and intensive factors. Both groups of factors act concurrently and, depending on their weight in economic development, we speak of three phases of intensification.

In the first phase, to be sure, the amount of social labor increases (still partly as a result of extensive factors) but is not, however, a decisive factor in the dynamic. Structural changes in production lead to increased use values, which increase faster than the physical volume of production. In the second phase of intensification, economic development is realized without a change in the overall amount of social labor, at the same time that the amount of use value increases. Finally, in the third phase the overall amount of expended social work declines but the use outcome of production increases. Precisely this third type creates the conditions for an absolute freeing of social labor.

The third phase of intensification is also reflected in the interrelationship of the social product of production consumption and the national income. The third, and highest, phase of intensification corresponds to an interrelationship where the national income increases at the same time that the social product stagnates and production consumption declines. From the viewpoint of intensification, this is the most significant macroeconomic structural change, which results from many microeconomic structural changes in production.

#### Our Current National Economic Structure

The current structure of the Czechoslovak national economy and its basic element, industry, is the result of a long-term process encompassing all postwar development. This fundamental restructuring of Czechoslovak industry has been oriented from the dominant and traditional light and foodstuff industry to an engineering-metallurgical profile, giving priority to the development of the production of investment projects. This concept has been fully justified by internal and foreign political conditions. In particular, the orientation of our economy toward the newly emerging markets of the world socialist system, the need for postwar renewal and the beginning socialist industrialization of the popularly democratic countries, and the orientation toward economic cooperation with the raw-materials-rich Soviet Union have been economically advantageous for us.

The construction of new production facilities and a rapid growth of employment in industry (along with a significant decline in agricultural workers) resulted in a rapid dynamic of industrial production, which reached 10 to 12 percent annually in the 1950's. The engineering industry, however, developed still more rapidly, with its growth rate being twice the preceding, while the development of the consumer goods and the foodstuff industry, on the other hand, was significantly slower.

The overall growth of the national economy in this period has permitted a rapid increase in the living standard of the population in the sphere of personal and social consumption. This has served to confirm the fundamental correctness of the structural and developmental concept that has been adopted. Simultaneously, however, this development has created a structure that from the viewpoint of new conditions and especially of current needs may not be characterized as optimal. The problems of a structure formed historically in this way consists mainly of certain macroeconomic relations. High investment-intensiveness has forced investment resources to be concentrated in those sectors being given priority in development, while the investment requirements of the other sectors, including the nonproduction spheres, cannot be subsidized to the requisite extent. The investment-intensiveness of the preferred sectors, acting in a reverse fashion, produced an additional, supplementary development of heavy industry. The aggregate macroeconomic expression of this structural development has been a significantly more rapid growth in the amount of social labor expended on production. The concrete manifestation of this has been an increase in production consumption, accumulation and therefore the entire social product in excess of the growth rate of national income.



In the postwar period, production consumption, as a percentage of the value of the social product, has continually increased. From 46.2 percent in 1948, it increased to 61.4 percent in 1980. This important macroeconomic relation has been retained and the necessity of moderating and gradually reducing it is one of the most serious structural problems of the shift to intensive development.

In this high production consumption, two components of the material factors of production stand out above all: capital and energy. Production demands on capital assets, given their average 5 percent annual growth, generate an annual need, in the current period as well, for a high degree of investment, and lead to the repression of their modernization and a limiting of nonproduction investment. Likewise, the high percentage of energy consumption and the trend toward its systematic increase are becoming the limiting condition of the desired structural changes, including production related to the enriching of domestic raw materials. The overcoming of these barriers cannot be resolved by a further expansion of energy resources but above all by savings, again on the basis of purposeful structural changes.

During the 1950's, the process of expanding the product mix of engineering products began. Besides increasing domestic demand, the need for machinery exports as a way to pay for imports of raw materials was the reason for this. Given the lack of development of international cooperation and specialization and given the low percentage of machinery and equipment in our imports, the trend toward a broad product mix, almost to the point of self-sufficiency in the assurance of demand for these products for the national economy, is understandable. This brought along, however, several unfavorable consequences, that we are encountering today. A lack of standardized production has resulted in high production costs; the breadth of the product mix could not be maintained at a high technical level; and the pace of innovation has been low. This is one of the reasons for the current lagging of some of our products behind the world's best and is manifested in low technical sophistication, high weight and low use parameters. A low export capability of a number of these products and low prices received for them are both only natural consequences of this situation in the area of our incorporation into the international division of labor.

A further structural problem of the national economy is a certain lack of balance in the sectoral structure of industry. In comparison with the industrially developed countries, we show a low percentage of electronics and so-called qualified chemistry, in spite of a sharp increase in these sectors in recent years. As shown earlier, the structure of the material base of industry is unfavorable in the relatively high percentage of the metallurgical industry and low percentage of the chemical industry.

We can then summarize. We belong among the foremost nations of the world, with our industrial and economic potential formed in the course of socialist construction. The structure of our national economy in its most fundamental features corresponds to the trends of structural changes in the world economy. From the viewpoint of changing conditions and of future requirements there are, however, numerous structural problems, whose gradual

resolution is a condition for the shift to an extensive production. The capability of the structure to adapt to economic conditions, a purposeful and feasible restructuring is an important task of the economic policy of the party and of the socialist state.

### Prospects for Structural Changes

The capability of adapting the structure of the national economy to changes in conditions of economic development is crucial for the intensification of the production process. In this sense, structural changes are quite simply the critical condition for intensification and an increase in efficiency. If science and technology are the main path to intensification, then the condition and outcome of scientific and technical progress are structural changes. Without structural changes it is impossible to imagine the deepening even of the international socialist division of labor.

Structural changes are a long-range matter. The development concept of the structure of the economy must follow from a Marxist understanding of the laws governing the development of the forces of production under the conditions of a scientific and technical revolution and must be based on thorough analyses and long-range prognoses.

When considering the character of future structural changes, it is necessary above all to start from the achieved level of economic development. It is necessary, likewise, to take into consideration objective conditions that in the near and distant future will influence the development of the economy and economic growth. In our situation, this is primarily a matter of worsening conditions. For instance, the development of the labor force population is unfavorable. Demographic studies indicate that in the Seventh Five-Year Plan we must reckon with absolutely the lowest increase in the work force of the entire postwar period. The tension between requirements for and sources of labor (even though we are aware of the relative nature of this relationship) will be higher than ever. We must count on worsening natural conditions for the mining of fuels and raw materials, with increasingly limited supplies of basic raw materials and energy, whose imports will be objectively limited.

The worsening of the so-called external conditions, so critical for our foreign trade, will continue. High import prices on the one hand and the rigorousness of world markets for our exported products on the other hand will continue to complicate the trade balance. Investment will also be limited, because of the unfavorable development of national income and because a great part of future investments will be already earmarked (for completing projects and for the energy industry).

Under these conditions, we will strive for structural changes that will increase the efficiency of the national economy and, in all its consequences, lead to a maximization of the national income. In this regard, three groups of possible structural changes suggest themselves:

- 1) The priority development should be in sectors where we are now reaching, or approaching, a leading world level of productivity, and the products of

which may be effectively applied to world markets (the so-called second order technology).

2) The development of sectors representing so-called first-order technology; i.e., mainly electronics and microelectronics. Our current, huge lags in these sectors, and our relatively low level of labor productivity in comparison with world productivity levels, cannot lead in our conditions to an underestimation of these sectors. The products of the microelectronics industry determine the technico-economic sophistication of other industrial products, raise their use and functional parameters, influence their reliability and performance and make programming and service easier. Structural changes based on their application have the character of an "innovational leap."

Structural changes connected to the so-called first-order technology will be exceptionally demanding on the development of a components and materials base, a research and development base and understandably also our own acquisition of a production capability. The first steps to the realization of these structural changes have already been taken. A number of micro-electronic components and applications are already being produced; international agreements concerning mutual deliveries and cooperation have been concluded; and an appropriate target program has been formulated.

3) For other production sectors, and especially for items that are mass produced or produced in large lots, where the optimal scale of production exceeds possibilities and resources, it will be necessary to seek a solution in a deeper integration into the international division of labor, particularly in the form of interdependent and component specialization and cooperation with socialist countries.

These three groups of possible structural changes, focused on priority development, innovation and the utilization of scientific and technical progress, would be difficult to implement under the conditions of the current breadth of the product mix. It seems essential to take steps to reduce the role of, or to liquidate, sectors with a low level of productivity and efficiency, thereby freeing capital assets, energy, raw materials and labor. The liquidation of obsolete, inefficient production facilities will clearly not be easy. On more than one occasion we have set this task for ourselves but it has never been fully carried out. Now, however, it will not be possible to give ground to local interests and various obstacles. The logic of the harsh economic reality of the 1980's makes this necessary.

The engineering industry will remain a key branch that will have a decisive influence on the formation of the national economic structure and within the framework of which the role of the electrotechnical industry, the production of equipment for automation, robotization and information processing, will increase. The dominant position of engineering in the structure of the national economy is characteristic for all industrially advanced countries.

Role of External Relations and Socialist Economic Integration The fundamental significance of international exchange for our economy is indisputable. In

particular, the development of cooperation with socialist countries within the framework of socialist economic integration is one of the important factors in the intensification of our economy. International exchange, its structure and developmental trends are likewise to a significant degree a measure of the effective functioning of our economy, because it provides us with objective information concerning the effectiveness of "national" social labor and an international comparison of how we value the resources expended on production. External economic relations, then, are a mirror of the performance of our economy, of the achieved level of scientific and technical progress and of the degree of optimality of the production structure. Confrontation with the world market is, for our economy, on the one hand a criterion of structural optimality but on the other hand also influences structural changes in the direction of optimality.

Our experiences in recent years have shown that the degree of our integration into the international division of labor is high; the openness of our national economy is increasing but nevertheless does not completely correspond to the achieved level of national economic development. This is evident above all in the qualitative criteria of this integration. A change in external conditions, consisting for our economy in a more rapid increase in the price of imports than for exports, has penalized our economy very heavily and has become evident in worsening exchange relations in foreign trade. The only solution is greater technical sophistication and economic efficiency for our exports.

The position of Czechoslovakia in world markets has developed over the past 10 to 15 years in such a way that we are represented above all as an exporter of products with generally available technology, therefore produced in many countries (in many cases under better economic conditions) without great demands on skilled labor. This is, understandably, a consequence of gaps in the production structure.

The value of the objects has significantly increased as a result of world price developments, but the export of products, of the most progressive components of our industry (the engineering industry) has not made a substantial contribution to covering the situation. A substantial weakening in the payment capability of engineering industry production has occurred and, basically, is continuing. The task of generating resources for payments is being shifted to such products as ferrous metal, building products, wood and consumer industry products. This is for the most part a question of sectors that are relatively demanding of imported raw materials, have high electrical energy consumption, and are relatively labor intensive. Primarily here the consumer durable goods group is fulfilling the task that should be filled by the engineering industry. This solution, which is clearly essential in certain situations, cannot form the basic concept of our export policy. We are not concerned here with a prospective solution but with a temporary one. It disrupts the balance of the domestic economy, complicates necessary incentives for the human factor and could deform the course of the entire production process.

The cooperation of socialist countries within the CEMA framework has quite basic importance for our economic development. The effective integration of

all branches into international socialist integration is, in addition to science and technology, the most important factor in intensification. In particular, international specialization and production cooperation and the construction of joint production facilities assist in overcoming a certain restrictiveness in the structure of the economies of the member countries and exerts an effective joint influence on the creation of the optimal structure for branches, industry as a whole and the structure of the overall national economy.

It has been convincingly shown that CEMA is the most dynamic economic community in the world. In the past decade, CEMA member countries have outpaced the developed capitalist countries by a factor of almost two in the rate of growth of industrial production and national income; in numerous types of production they have, on a per capita basis, achieved dominance over EEC countries, even though they were significantly behind them at the beginning of the 1970's.

CEMA's growing economic potential as a whole exerts a reverse influence on the economies of the individual member states, as a dynamo growth factor contributing to greater national economic efficiency.

Of the multilateral forms of mutual cooperation, international specialization and production cooperation will be the most important in the 1980's. Even though the volume of mutual foreign trade will continue to grow, CEMA activity is being still more sharply shifted directly to production. International specialization and cooperation will permit the achievement at a faster rate, even in small countries, of rational mass production and thereby greater production efficiency.

In the development of international specialization and cooperation, we are not, understandably, at the start of development. Results attest to the economic advantages of this. Specialization has proven itself in such products as selected electrical equipment, as well as batteries and small computer technology in Bulgaria; the production of buses and of certain automotive parts in Hungary; ships, machinery for the chemical and textile industries and passenger cars in the GDR; equipment for crude oil extraction and freight cars in Romania; and a number of groups of unique equipment in the USSR. Our engineering industry is also gaining an important reputation within CEMA. It is concentrating on the production of nuclear reactors, trucks, chemical equipment and the like. Specialization and cooperation are already contributing significantly to the growth of mutual deliveries of equipment. Such exchange amounted to 27 billion rubles in the 1966-1970 period, while from 1976 to 1980 it already amounted to 90 billion rubles.

Despite this rapid development, however, the possibilities for international specialization and cooperation have been far from exhausted. On the contrary, in the 1980's they will become the main form of, and an instrument for, restructuring the national economic structures of CEMA countries. The intentions and objectives of this restructuring are expressed in long-term target programs of cooperation in the key branches of the national economy.

These programs represent a qualitatively new form of CEMA work and encompass the areas of energy and raw materials, engineering, the consumer goods industry, agriculture and the food industry, and transportation. More than 120 agreements have been signed to formulate and assure the implementation of the adopted long-range target programs. These programs are tied into bilateral programs of specialization and cooperation that have been signed up to 1990 between the USSR and the other socialist countries and among the socialist countries themselves.

At the 35th CEMA Session in 1981, a plan of multilateral integrational measures was agreed upon for the 1981-1985 period that, among other things, presupposes the joint construction of a number of production facilities. This is a further form of socialist integration, which will contribute to forming an optimal production structure. Several of these joint construction projects have already been realized and are contributing significant economic results to the member countries.

Additional joint facilities are nearing completion or still under construction, such as a metallurgical combine for the extraction and processing of nonferrous metals at Norilsk, a combine for the mining and preparation of nickel in Cuba and a combine for the preparation of cupro-molybdenum ores in Mongolia. Designs are being prepared for chemical nuclear powerplants with a capacity of 4 million kilowatts.

Integrational facilities resulting from the development of the international specialization and cooperation of the socialist countries have a fundamental significance for improving the economic structures of CEMA countries and are a prospective form of socialist economic integration.

The need for structural changes even now is far from a concern of only a single country but of all socialist countries. Revolutionary development is leading to a situation where the structure of individual socialist countries, which is historically generated and limited by natural influences, may be overcome by changes that will influence CEMA's structure as an economic complex.

The complexity of the structural problems and of the paths to overcoming them will require greater cooperation between science and practice, an increase in the role of analysis and prediction, of long-range plans, of economic laws and the entire planning system, even on the scale of socialist economic integration. Intensive development and structural changes are not only, however, a concern of managerial employees. In this area as well, an irreplaceable position is occupied by worker initiative, socialist competition, improved movements and everything else that will create an atmosphere favorable for the wider application of scientific progress in all aspects of our economic life.

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METAL PRODUCTION REDUCED ACCORDING TO PLAN

Prague HOSPODARSKE NOVINY in Czech 11 Jun 82 p 1

[Article by Prof Engr Zdenek Prusa, DrCs, deputy minister of metallurgy and heavy engineering of the CSSR]

[Text] State Target Program 3, which the CSSR Government approved by its Resolution No 347 dated 6 November 1980, has become a specific tool for making the use of materials made of metal more effective. The coordination of this program was delegated to the Federal Ministry of Metallurgy and Heavy Engineering [FMHTS].

This program is directly related to the main trends of economic and social development of the CSSR planned for 1981-85 and for the period up to 1990. It is assumed that the production of metals will not continue to increase but that first of all the use of metals will improve substantially in all sectors of the national economy so that their relative savings reaches 4.5 to 5 percent annually during the Seventh Five-Year Plan. Our duty is to strive to create more appropriate economic conditions and a more favorable social climate tending to increase rationalization activities. These measures should at the same time eliminate the barriers obstructing the desirable development of efforts to achieve savings. These barriers manifest themselves as unwillingness to carry out, or lack of understanding for, new, progressive programs designed to solve the problems or as prolonged and complicated discussions of more adequate solutions that in principle have been previously adopted.

Program 3 deals with the most important intensification factors in the production and consumption of metals. It determines their gradual application, above all through the plan and primarily with regard to specific actions. It affects practically all key production spheres and the use of metals. The program was drafted as an open one. Therefore, it allows subsequent detailing in more precise terms the actions included in the program and including additional specific actions, which during the Seventh Five-Year Plan will ensue from the application of research and development and from the work of innovators and inventors.

The program determines for individual departments and Kraj national committees the relative savings of metals to be achieved during each year of the Seventh Five-Year Plan. In the case of key departments, it was necessary to define the minimum parameters of savings in the plan allocation. This minimum limit

corresponds practically to the level of actions provided for by the plan. This procedure was selected since the present provisions for programmed actions under the plan up to 1985 do not completely cover the overall task. We consider it necessary to seek further ways in the executory plans to implement gradually the specified actions not provided for as yet under the plan. We must also consider the present facilities in formulating more precisely certain actions or measures still in the nature of design. Much savings depends on looking for, enforcing and introducing new, effective forms of initiative of the working people, on a more consistent orientation of the movement of innovators and inventors in the direction of obtaining savings of metals.

The department of metallurgy and heavy engineering is both the producer and the biggest consumer of materials made of metal. Consequently, a more efficient and more economical use of metals in the enterprises of this department is exceptionally important for the national economy. The main rationalization trends in this area are reductions of irreversible losses in the metallurgical production process, increases of the effectiveness of those processes, decreases of losses in the manufacture of metallurgical products and secondary products, introduction of new types of materials or improvements of the physical, mechanical, dimensional and chemical properties of the existing materials. In the area of machinebuilding by the department, this involves savings of material by reducing the weight of the machinery and installations, by replacing metals with plastics and by introducing progressive technologies, above all in forming, precision casting and purposeful expansion of welding.

The applicability of the program as a tool for the orientation of rationalization activities in the department of metallurgy and heavy engineering was tested in 1981. However, we are aware that measures that must continue to be applied in the entire national economy in order to provide for high and lasting rationalization yields, are often of a long-term nature. That is why it is necessary to consider the possibility that in the forthcoming years it will not be easy to achieve such favorable results as last year. Enterprises must strive unceasingly to find new sources of savings. In any material decisionmaking, the management workers must keep in mind ways of achieving savings of materials and energies.

State Target Program 3--Rationalization of the Consumption of Metals for 1981--is being implemented favorably. Altogether, the planned savings of ferrous metals amounting to 328,660 tons was overfulfilled at 135 percent (actual amount, 444,888 tons), the planned savings of nonferrous metals of 8,549 tons was overfulfilled at 164 percent (actual amount, 14,064 tons). The FMHTS department contributed 220,905 tons for the planned [savings of] 174,230 tons of ferrous metals (127 percent) and 5,275 tons of nonferrous metals for the planned savings of 3,474 tons (151 percent). General engineering enterprises saved 108,153 tons (137 percent of the plan) of ferrous metals and 4,850 tons (176 percent) of nonferrous metals. In the electrotechnical industry, the savings of ferrous metals of 7,681 tons is seemingly small. Nevertheless, the plan was overfulfilled for ferrous metals at 110 percent and in the case of nonferrous metals at 135 percent by the amount of 2,198 tons as compared to the planned 1,630 tons in those productions operating with relatively small amounts of material, although material increasing in value considerably. Very substantial contributions came from the Department of Transportation (26,243 tons of ferrous and 31 tons of



nonferrous metals), FMPE [Federal Ministry of Power Industry ?, expansion unknown] (27,555 tons of ferrous metals and 211 tons of nonferrous metals) and from branches managed territorially by the by the CSR and SSR Governments and by okres national committees, which altogether showed substantial overfulfillment of the planned tasks.

Forty-eight specific actions were handled in 1981 within the FMHTS jurisdiction. Of this total, 32 actions were oriented to savings of ferrous metals, 5 actions to savings of nonferrous metals and 11 actions to concurrent savings of both ferrous and nonferrous metals. Predominantly, specific actions--64 percent--were oriented to machine building, namely, to improved designing, construction and technology. Major savings of metals was achieved by using progressive technical trends in construction and technology. That is a favorable phenomenon, because the goal of this program is not to "save at all costs."

In metallurgical production of metals and their processing, a number of specific actions did not start until 1981 and the final level of savings will be reached only after the corresponding production processes have been put fully in operation. Decisive results will be obtained by carrying out certain state and departmental tasks of the planned development of science and technology. Among these, 17 specific actions began in 1981; these resulted in significant savings of metals in the first year, when the production was initiated. These actions include increases of the sets of continuous casting units at the SONP [United Steel Works, National Enterprise] in Kladno, utilization of pig iron in the slag processing plant in Vitkovice, savings of ingotmold material at the NHKG [Klement Gottwald New Metallurgical Works (in Ostrava Kuncice)], reduction of the balance weight of preform and heavy rolling mills in Vitkovice and rolling with minus tolerances at the TZ VRSR [Trinec Ironworks of the Great October Socialist Revolution].

In the area of machine building of the Federal Ministry of Metallurgy and Heavy Engineering, the state target program assumed that operations would begin in 33 specific actions. Savings of metals was achieved particularly by production innovations and by introduction of progressive technologies. By improving construction--for example, by using lighter profiles, by reducing overall weight and by cumulating the production and storage of material of the same kind--the SKODA Kraj Enterprise saved additionally in 1981 approximately 1,356 tons of ferrous metals; an additional 1,000 tons of ferrous metals was saved by rationalization measures in technology, for example, by switching from free forging to die casting, and other technological changes. Another example of successful rationalization actions was the unification of types of plunger pumps in the SIGMA concern. Their weight was reduced by innovation; a new series also solved the problem of disunity and technological fragmentation of the production process.

Other departments shared in the implementation of the specific actions of State Target Program 3. One can mention the following as tangible examples:

--Modernization of UR-1 tractors with a savings of 7,860 tons of ferrous metals, and production of bearings made of argon steel with a savings of 1,880 tons of ferrous metals under the jurisdiction of the FMVS [expansion unknown].

--regeneration of rails produced under the jurisdiction of the Ministry of Transportation, with a savings of 24,392 tons of ferrous metals;

--innovation in microelectronics at the TESLA Kraj Enterprise in Roznov under the jurisdiction of the Federal Ministry of Electrotechnical Industry, with a savings of 112 tons of ferrous metals and 33 tons of nonferrous metals;

--in the area of fuels and power, the production of a new flexible air pipe at the OKD [Ostrava Karvinna Mines] in Ostrava, with a savings of 1,274 tons of ferrous metals;

--savings of 845 tons of ferrous metals by replacing them with thermoplastics in the area of the SSR Ministry of Construction; and

--introduction of the production of metal furniture of a new type at the Kovona National Enterprise, with a savings of 329 tons of ferrous metals and a half ton of nonferrous metals.

Investments in reconstruction and modernization, which are directly related to this program, show a relatively good return. In enterprises under the FNHTS jurisdiction, 16 specific actions, including 2 in metallurgy, required investment in 1981. This level is minimal; in the following years an increase is expected in the number of specific actions and the effects derived from them. The ratio of specific actions planned to secure savings of metals in individual departments varies considerably, from zero to 98 percent (in FMD) [expansion unknown, Federal Ministry of Transportation ?]. Big differences between individual jurisdictions must lead to a detailed analysis of the causes and to an exchange of experience. The biggest savings can be achieved in most cases only by selected, centrally controlled and well-prepared actions.

The implementation of the tasks of Rationalization Program 3 was influenced very positively by socialist competition. That is why it is necessary to continue considering the activities of the working people as an inseparable part of this state target program. In addition to this activity, it is also necessary to seek other actions involving the use of incentives and competition at the level of general directorates, enterprises and manufacturing establishments, in krajes and okreses, with the goal of promoting fast implementation of all progressive proposals. It is not a question of one-time actions. More economical use of metals is part of the daily struggle for higher efficiency of every industrial activity.

5668

CSO: 2400/308

CENTRAL VILLAGE NATIONAL COMMITTEES DEFINED IN LAW

Prague SBIRKA ZAKONU in Czech No 10, 11 May 82 pp 185-190

[Text] Czech National Council Law No 49, dated 27 April 1982, by which the law concerning national committees is altered and supplemented and the authority of local national committees in central villages is modified.

The Czech National Council has adopted the following law:

Article I

Law No 69/1967 of the Laws of the CSSR, concerning national committees, in the version of the latest laws (the full version, No 28/1972 of the Laws of the CSSR), is changed and supplemented as follows:

1. Section 9 reads:

"(1) In a village, which on the recommendation of an okres national committee is designated as a central village by a kraj national committee (hereafter referred to as a central village), the local national committee functions with expanded authority.

(2) With citizen agreement, a single local national committee can be established for several villages; the okres national committee makes the decision concerning this measure upon recommendation of local national committees.

(3) The kraj national committee may, on the recommendation of the okres national committee, designate that a local national committee for several villages have the authority of a local national committee in a central village."

2. In section 13, regulation a reads:

"a) a local national committee should have at least

9 delegates in villages of up to 300 inhabitants,  
11 delegates in villages of up to 600 inhabitants,  
17 delegates in villages of up to 1,500 inhabitants,  
25 delegates in villages of up to 5,000 inhabitants,  
40 delegates in villages with over 5,000 inhabitants"

Following a is inserted a new regulation, b, which reads

"b) a local national committee in a central village, or a town national committee, should have at least

25 delegates in villages of up to 1,500 inhabitants,  
30 delegates in villages of up to 2,500 inhabitants,  
35 delegates in villages of up to 5,000 inhabitants,  
50 delegates in villages of up to 10,000 inhabitants,  
60 delegates in villages of up to 20,000 inhabitants,  
80 delegates in villages of up to 50,000 inhabitants,  
85 delegates in villages of over 50,000 inhabitants"

Current regulations b, c, d and e are to be marked as regulations c, d, e and f.

3. The title of section 25, "The Local National Committee," is placed before the numerical designation of this section, and its paragraph 2 c reads:

"c) authorizes the relocation of sales outlets, establishes business hours and takes measures to assure the proper supplying of the population"

4. Following section 25 is inserted section 25a, which reads:

"Section 25a

The local national committee in a central village, in addition to the authority appropriate to it under Section 5

a) establishes, administers and liquidates small operations and, depending on the conditions, also service enterprises providing basic citizen services and the equipment or organization for the administration and maintenance of household property, if this is effective given the amount of this property;

b) expresses itself on proposed designs for okres development, on proposed medium-range and implementational economic plans and the budget of the okres national committee; the okres national committee being responsible for negotiating these proposals with the local national committees in the central villages and informing them concerning the adopted designs, economic plans and budget, and their fulfillment;

c) in relation to national committees managed by higher level national committees

1. it may request reports concerning their activity, insofar as it affects the living conditions of the village population and the tasks of the local national committee in the development of its territory;

2. it may request of organizations the negotiation of adjustments upon the determination of shortcomings in their activities, to the extent that this has led to a disruption of socialist legality or societywide interests and thereby threatening the justifiable needs or living conditions of the village population; these organizations are required to inform the national committee, within the

time allotted, how and when it will assure the elimination of the shortcomings;

3. it may request the imposing of disciplinary measures or another penalty on an employee responsible for shortcomings that were not eliminated within the time stated by the organization to the national committee;

4. it may authorize the siting and the initiation of activities for new operations or service facilities, and the expansion, limitation or elimination of services; following negotiations with organizations and with the appropriate organ of the Revolutionary Trade Union Movement, it may establish hours of operation for providing service to citizens;

5. it may express itself on proposals for the appointment and termination of managers of operations and facilities; in cases of serious or repeated shortcomings in the activities of the operation or facility, it may recommend the termination of its managers from their positions;

d) in relation to centrally managed economic, cooperative and other organizations:

1. it has the rights cited in regulation c 1,2,3 and 4;

2. it may recommend to the okres national committee the cessation of the performance of a resolution or other measure of a united agricultural cooperative that may be in conflict with the legal regulations or statutes of the united agricultural cooperative, with the agreement concerning cooperation or concerning the establishment of a joint agricultural enterprise;

3. it may express itself concerning the issuance of a permit to a united agricultural cooperative for the conduct of cooperative production on the territory of a central village;

4. it may recommend to the okres national committee that it request the convening of a special member meeting (of the committee of representatives) of a united agricultural cooperative to discuss serious matters relating to the interests of a central village."

5. In section 26, following paragraph 2 is a new paragraph 3, which reads:

"(3) The town national committee also performs the functions that fall to the local national committee in a central village (section 25a)."

Current paragraphs 3,4 and 5 are to be designated as paragraphs 4, 5 and 6, respectively.

6. Section 64, paragraph 1, reads:

"(1) City national committees, along with obvod national committees as well as local national committees in central villages, establish citizen committees. Local national committees in other villages may establish citizen committees, if this is required by the size of the territory or by special conditions of

economic and cultural development. Citizens elects members of citizen committees at public assemblies for a period of 5 years."

#### Article II

Czech National Council Law No 130/1974 of the Laws of the CSSR, concerning state administration in water management, is changed and supplemented as follows:

1. In section 3, paragraph 2, the introductory sentence reads:

"(2) Local national committees in central villages, and town national committees, if it is not a question of border streams."

2. In section 3, after paragraph 2 is a new paragraph 3, which reads:

"(3) Local national committees in other villages may discharge the function cited in paragraph 2, only on the basis of authorization by the kraj national committee, issued after discussions with the appropriate okres national committee in instances with the necessary conditions."

3. In Section 3, the current paragraph 3 is designated as paragraph 4.

#### Article III

Czech National Council Law No 129/1975 of the Laws of the CSSR, concerning the authority of the CSSR social security organs, is changed and supplemented as follows:

1. In section 5, paragraph 1, a sentence is added at the end that reads: "Local national committees in central villages and town national committees may, as administrative commissions, establish commissions for the care of families and children."

2. Regulation section 14 is designated as paragraph 1 and supplemented with a new paragraph 2, which reads:

"(2) The local national committee in a central village and a town national committee, through its commission for the care of families and children, provided the commission was established by the national committee,

a) makes decisions

1. concerning rebukes of a minor, his parents and citizens who disrupt his proper upbringing;

2. concerning the establishment of supervision over a minor,

3. concerning the assignment of limitations to a minor to prevent harmful influences on his upbringing,

b) performs tasks in the coordination of the activities of organs active in the care of families and children."

#### Article IV

Czech National Council Law No 77/1978 of the Laws of the CSSR, concerning state administration in education, is changed and supplemented as follows:

1. Section 5 is supplemented by paragraph 4, which reads:

"(4) The local national committee in a central village, in addition to the functions cited in paragraphs 1-3, with the agreement of the okres national committee also

a) establishes and terminates the elementary school,

b) sets up the school department and school apparatus, which it then administers."

2. Section 6, paragraph 1, reads:

"(1) The town national committee performs, in addition to the functions that belong to the local national committee in a central village (section 5, paragraph 4), the functions that according to section 10, paragraph 1, otherwise belong to the okres national committee."

3. In section 7, in paragraph 1 b, after the words "elementary school" are inserted the words "insofar as section 5, paragraph 4 does not imply something different," and in paragraph 3 a the citation in parentheses to "(section 5, paragraph 1)" is replaced with a citation to "(section 5, paragraphs 1 and 4)."

4. Section 8 is supplemented at the end with these words: "insofar as section 5, paragraph 4, does not imply something different."

#### Article V

Law No 60/1961 of the Laws of the CSSR, concerning the tasks of national committees in the assurance of social order, is changed as follows in the latest versions of the laws:

Section 20, paragraph 4, reads:

"(4) A crime is handled by that organ of a national committee responsible for the area where the crime occurred. Kraj national committees, okres national committees, town national committees and obvod national committees, as well as local national committees in central villages may, as an administrative commission, establish a commission for the handling of all or of several crimes. The members of these commissions are elected by the national committee from the ranks of its delegates and other citizens, above all those who have been recommended to it by social organizations. The chairman of the commission is a delegate of the national committee. The commission deliberates and decides in a three-member body; the majority rules."

## Article VI

The functions of okres national committees, as cited in the supplement to this law, are transferred to the local national committees in central villages.

## Article VII

This law takes effect 1 July 1982.

Kempny (signature)

Korcak (signature)

Supplement to Czech National Council Law No 49/1982, Laws of the CSSR, by which the law concerning national committees is changed and supplemented and the authority of local national committees in central villages is modified.

The following functions belonging to okres national committees, here listed by item number and sector of state administration, are being transferred under this law to local national committees in central villages, according to the listed regulations and sections.

Item: 1

Sector: agriculture

Authority: Czech National Council Law (CNR Law) No 77/1976, section 3, paragraph 1 b

Function: identifying parcels of land in a village that should be declared a part of the agricultural land fund, the proclamation of parcels as parts of this fund, and the realization of measures toward their use for agricultural production

Item: 2

Sector: agriculture

Authority: Decree No 310/1951, Official Gazette of the CSSR (U.1.), section 1, paragraph 3

Function: issuance of permits to establish bee-pollinating stations

Item: 3

Sector: agriculture

Authority: U.1. Decree No 310/1951, section 2

Function: granting exceptions for the raising of other bee colonies in the protected obvod of a pollinating station



Item: 4

Sector: agriculture

Authority: Law No 102/1963, Laws of CSSR; Decree No 103/1963, Laws of CSSR, section 9, paragraph 4; section 9, paragraphs 1, 2

Function: approval of the fishing manager and his representative for a fishing ground and the issuance of passes to the fishing manager and his representative, the receipt of reports from the fishing manager concerning defects in fishery management

Item: 5

Sector: agriculture

Authority: Law No 102/1963, Laws of CSSR; Decree No 103/1963, Laws of CSSR, section 18; section 49, paragraph 2; section 50, paragraphs 2 and 3; section 51, paragraph 3; section 52

Function: approval of a fishing warden, who will take an oath before the committee, the issuance of certificates of approval of a fishing warden and of the taking of the oath; keeping a directory of fish wardens, issuance of the service pin of a fish warden, the collection of certificates and service pins of fish wardens who have ceased to perform protective service and the acceptance of announcements from organizations concerning the cancellation of this function

Item: 6

Sector: agriculture

Authority: Law No 61/1964, Laws of the CSSR; Decree No 62/1964, Laws of CSSR, section 25, paragraph 2; section 36, paragraph 3

Function: organizing of the performance of effective mass measures against dangerous outbreaks of plant pests or because of a justified fear of their dangerous spread

Item: 7

Sector: management of apartment and nonapartment spaces

Authority: Law No 41/1964, Laws of CSSR, section 57, paragraph 1

Function: issuance of approval for the exceptional subdivision of an apartment into two or more separate apartments

Item: 8

Sector: management of apartment and nonapartment spaces

Authority: Law No 41/1964, Laws of CSSR, section 57, paragraph 2

Function: issuance of approval for the use of an apartment or part of an apartment for other purposes than habitation

Item: 9

Sector: management of apartment and nonapartment spaces

Authority: Law No 41/1964, Laws of CSSR, section 67, paragraph 3

Function: decision concerning whether a certain apartment is of the nature of the nature of an ancillary apartment

Item: 10

Sector: management of apartment and nonapartment spaces

Authority: guidelines published in U.I. issue 42/1958, part I, point 2

Function: decisions concerning the allocation of nonapartment rooms to organs or organizations active in a central village, if in a single instance their floor area does not exceed 500 square meters

Item: 11

Sector: transportation

Authority: Law No 68/1979, Laws of CSSR; Decree No 100/1975, Laws of CSSR, section 29, paragraph 2a, section 33, paragraph 1

Function: granting permission to transport more than six individuals in the seating area of a motor vehicle designed for the transport of freight, if the transportation is not to extend beyond the area of authority of the okres national committee, and if it is not a question of the transport of dangerous materials

Item: 12

Sector: transportation

Authority: Law No 68/1979, Laws of CSSR, section 29, paragraph 2b

Function: granting permission for the operation of highway transport with non-motorized vehicles

Item: 13

Sector: social security

Authority: CNR Law No 129/1975, Laws of CSSR, section 8a (8)

Function: decisions concerning support with the birth of a child to a pensioness, wife or other family member of a nonworking pensioner

Item: 14

Sector: social security

Authority: CNR Law No 129/1975, section 8a (9)

Function: decisions concerning contributions for the recreation of children of a nonworking pensioner

Item: 15

Sector: social security

Authority: CNR Law No 129/1975, Laws of CSSR, section 8a (10)

Function: decisions concerning funeral payments on the death of a nonworking pensioner or a member of his family

Item: 16

Sector: social security

Authority: CNR Law No 129/1975, Laws of CSSR, section 8a (11)

Function: decisions concerning funeral payments on the death of an independent farmer, a cooperating member of his family or a family member

Item: 17

Sector: social security

Authority: CNR Law No 129/1975, Laws of CSSR; Decree No 130/1975, Laws of CSSR, section 15a (3), section 23, section 24

Function: decisions concerning the providing of monetary contributions and material assistance in the care of a family and children

Item: 18

Sector: social security

Authority: CNR Law No 129/1975, Laws of CSSR; Decree No 130/1975, Laws of CSSR, section 15c, section 18, paragraph 3

Function: performance of established supervision of children

Item: 19

Sector: social security

Authority: CNR Law No 129/1975, Laws of CSSR; Decree No 130/1975, Laws of CSSR, section 18a, (3), section 18, paragraphs 1,2

Function: decisions concerning the assignment of restrictions to a minor that will prevent harmful influences on his upbringing

Item: 20

Sector: social security

Authority: CNR Law No 129/1975, Laws of CSSR; Decree No 130/1975, Laws of CSSR, section 18b, section 14, paragraph 1

Function: fulfillment of tasks in the coordination of the activities of organs active in the care of families and children in a central village

Item: 21

Sector: social security

Authority: CNR Law No 129/1975, Laws of CSSR, section 32

Function: the provision of material assistance and monetary contributions to citizens who, due to extraordinary events, find themselves in especially difficult circumstances they cannot overcome by their own efforts or with the help of their families

Item: 22

Sector: social security

Authority: CNR Law No 129/1975, Laws of CSSR; Decree No 130/1975, Laws of CSSR, section 33; section 48, paragraphs 1,2; section 49, paragraph 1; section 51, paragraphs 1,2

Function: the provision of educational care, advisory services and, according to need, also material assistance and monetary contributions to citizens who are living in extraordinarily difficult conditions and therefore require the assistance of society to overcome the consequences and habits stemming from a different way of life in the past

Item: 23

Sector: fire protection

Authority: Law No 18/1958, Laws of CSSR, section 7

Function: decisions concerning the removal from use of things that due to their shortcomings threaten the fire safety of people or of property, in facilities in which these committees are authorized to carry out antifire inspections

9276

CSO: 2400/298

REPORT ON FIRST HALF 1982 ECONOMIC PLAN FULFILLMENT PUBLISHED

East Berlin NEUES DEUTSCHLAND in German 16 Jul 82 pp 3-5

[Official text of "Report by the State Central Administration for Statistics on the Implementation of the 1982 Economic Plan in the First Half Year"]

[Text] In the first half of 1982 the GDR working people have achieved outstanding working results in further universally strengthening our socialist worker-peasant state. This expresses the unshakable confidence of the working people in the policy of the party of the workers class and the government. The decisions of the 10th SED Congress are being successfully implemented by the creativity, the numerous activities and the diligence of the workers, the cooperative peasants, the intelligentsia and the other working people. In this connection it is of great political and economic importance that the stable and dynamic development of the GDR economy is being maintained even under the unfavorable changes of the foreign economic conditions. On this basis the tested course of the main task in its unity of economic and social policy will be continued.

Great stimuli for successfully fulfilling the 10th party congress resolutions in all fields of social life have emanated from the tasks set by Comrade Erich Honecker, SED Central Committee general secretary, at the third plenum of the SED Central Committee and the conference of the Central Committee secretariat with the first secretaries of the kreis leaderships. They are reflected in increased economic achievements. The achievement of a considerable growth in performance and efficiency is evidence of the consistent application of the economic strategy of the 10th SED Congress.

In the socialist competition organized by the trade unions under the slogan "High performance growth by increasing labor productivity, efficiency and quality--everything for the benefit of the people and peace!" Many new ideas and initiatives have been implemented in preparing and evaluating the 10th FDGB Congress. The socialist competition experienced another upswing. Here the workers class has once again proved to be the leading force of socialist society. Thanks to the manifold initiatives of the working people of all fields of the GDR economy a significant lead in the plan was achieved in important fields. Industrial products amounting to M1.3 billion above the

plan targets have been made available for the supply of the people and the economy as well as for export. The industrial combines achieved a plan lead of 0.8 of a day of output in industrial goods production. This overfulfillment was achieved above all through making better use of domestic raw materials and with lower energy, raw material and industrial material funds than last year. Of particular importance is the fact that numerous enterprises and combines returned to the state part of the funds of raw materials, materials and financial resources that had been allocated to them under the 1982 plan.

Of great importance for continuing to strengthen the GDR economy's performance strength are the commitments of the working people as expressed in the letter of the general director and Central Committee party organizers from all centrally-managed combines of industry, construction, transportation and communications and from the bezirk-managed combines addressed from the Central Committee's Leipzig seminar to Comrade Erich Honecker, general secretary of the SED Central Committee. The commitments undertaken there are based on the unflinching will to implement with utmost consistency the 10th Party Congress resolutions aimed at the benefit of the people and to make use of the existing possibilities in every combine by mobilizing the combine's own forces. The cooperative peasants and the workers have made great efforts to secure supplies of foodstuffs for the people and raw materials for industry. In evaluating the 12th Farmers Congress the working people in agriculture concentrated, above all, on guaranteeing the growth of the yields in the field and in the stables with the planned assets and on improving the ratio of expenditures to results.

To increase the performance capacity of the GDR's economy it is of decisive importance that the qualitative factors of economic growth were increasingly used for the socialist intensification and rationalization. The economic performance growth was almost exclusively reached by increasing labor productivity. The ratio of expenditures to results was further improved. It is of decisive importance that the socialist planned economy is consistently adjusted to the requirements of the intensive development of the economy and that it reacts swiftly and flexibly to qualitatively new demands. Under the more complicated conditions, in particular, it has clearly proved its superiority.

The main path for solving the tasks of intensification of the social reproduction process is the purposeful use and the increased economic effectiveness of science and technology. New modern technologies, processes and products have been introduced into production by creative independent solutions of scientists and engineers. The higher refinement and processing of the available energy resources, raw materials and materials contributed considerably toward increasing the distributable finished product and toward reducing the production consumption.

The development of the material-technical base was done, above all, by modernization and renewal. Here microelectronics and robot technology were increasingly used for modernizing the existing technology and for the automation of entire

technological processes. At the same time this contributed to further improving the labor and living conditions. At present already 16,500 robots are being used in the economy.

The close cooperation with the USSR and the other fraternal countries in CEMA is a firm basis for implementing our economic political aims.

In implementing the program of specialization and cooperation of production between the GDR and the USSR through 1990, 16 further agreements on deepening cooperation were concluded in the first half of 1982, in particular in fields that determine scientific-technological progress. Thus at present there are 160 governmental and ministerial agreements between the GDR and the USSR on economic and scientific-technological cooperation. There is also successful cooperation with the other CEMA countries to implement agreements on specialization and cooperation in science technology and production.

Thanks to the working people's strenuous work our sociopolitical program was continued successfully despite disruptions and impairments from outside. Thus in the first half of 1982 alone, housing conditions were improved for 267,000 citizens. In line with the increased performances the net monetary income of the people have increased by over 3 percent since the beginning of the year. For the great social payments M1.7 billion more were made available from the state's social funds than during the same period last year.

The tasks of national defense and internal security and order were economically guaranteed as integral parts of the national economic plan.

The youth, with their high readiness for performance, their great creativity and social sense of responsibility in the mass movement "FDJ Assignment 10th Party Congress" have made an important contribution to the good economic development. In the performance comparison of the over 40,000 youth brigades under the slogan "Every Day With Good Results" the youth stood their test in the struggle for best performance and for opening up great reserves. Millions of citizens achieved significant results in the socialist competition of the GDR national front "Beautify Our Cities and Communities--Join in!"

In implementing the economic plan for the first half of 1982 the following main results were achieved (note 1: preliminary figures):

--Produced national income increased 3 percent. Industry, with an increase of the net product of 4 percent, accounted for the biggest share in the increase of national income. The increased use of the qualitative factors of economic growth on the path of socialist intensification and rationalization was of decisive importance for the continuous development of the produced national income. Over 90 percent of the growth of the national income was achieved by increasing labor productivity. The ratio between production consumption and produced national income was further improved.



--In the sphere of the industrial ministries production volume increased by 4 percent in the first half of 1982 compared with 1981 and in the national economy by 3 percent. The half-year plan for industrial goods production of the economy was fulfilled 100.7 percent and in the field of the industrial ministries 100.6 percent. The combines in the sphere of the industrial ministries produced M1.1 billion worth of goods above the plan. This plan lead was mainly achieved by making better use of domestic raw materials and the economical use of existing energy, raw material and industrial material resources as well as by increasing labor productivity.

--The further improvement of the expenditure-result ratio was of particular importance for increasing industrial performance capacity. This is reflected in the 2.1 percent overfulfillment of the targets for net production for the first half of 1982. The specific consumption of energy resources, raw materials and industrial materials which are of importance for the national economy was reduced by 6 percent. The basic material costs per M100 goods production were reduced to a greater extent than provided by the plan.

--Labor productivity increased in industry by 3.4 percent. The growth in production achieved results mainly from the increased labor productivity. In 18 combines the increase of the industrial goods production was achieved exclusively by increasing labor productivity.

--The tasks of the state plan and the enterprise plans as regards science and technology were fulfilled. The implementation time of many research and development tasks, including introducing them into production, was shortened. With application of scientific-technological results 245 million hours of working time were saved. This equals the working capacity of over 266,000 working people in this period.

--The level of quality of industrial production has been increased. Some M30 billion worth of industrial products with the "Q" quality label was produced. The use value and the operational convenience of a number of new products was increased.

--In the economy M22 billion was invested to improve the material-technological base in accordance with the plan and to continue the social policy. The investment activity was directed to a greater extent than in the past years toward the swift economic utilization of scientific-technological progress. Rationalization investments were increasingly carried out to modernize the existing basic funds and to increase their efficiency. The number of newly started investment projects has further decreased. This made it possible to shorten the implementation period and to reduce investment expenditure.

--Compared to the first half of 1981 production in the construction sector increased by 3.1 percent. The plan was implemented 100.7 percent. Here production consumption was reduced in absolute terms. The efforts of the working people to improve the expenditure-result ratio resulted in an overfulfillment of the net production plan by 4 percent. The planned basic material costs per M100 production in the construction sector were lower than provided in the plan.

--Altogether 89,217 apartments were built or modernized. The plan was overfulfilled by 3,342 apartments. In the centers of the workers class there was an above-average increase in the construction of apartments.

--Agriculture overfulfilled the state procurement plan for products of livestock farming in the first half of 1982 for poultry and eggs. For cattle and hogs for slaughter as well as for milk the planned procurement was not fully achieved. The spring sowing was in accordance with plan and was of a high quality.

--The working people of the transportation sector achieved further progress in shifting transport from roads to the railroad and inland navigation and in more rationally shaping the delivery and transportation relations. This resulted in an improvement of the transportation economy and a reduction of fuel consumption. The share of the railroad and inland navigation in the transportation of goods in inland transportation increased from 72 to 77 percent. The specific expenditure on transportation in the economy was reduced by 9 percent.

--As a result of the working people's great achievements in the production and foreign trade enterprises the GDR's exports rose by 10 percent. A considerable increase in the foreign trade turnover and favorable trade balance were achieved with the socialist countries. With a share of 39 percent, the GDR's foreign trade with the USSR was the most important part. Exports to the USSR increased by 11 percent. As a result of high growth rates in the exports to the developing countries and to the capitalist industrialized countries an increasingly positive trade balance was achieved with this economic area.

--The contribution of the state from social funds to improving the material and cultural living conditions of the population amounted to M31.1 billion. Thus compared with the first half of 1981, 5.8 percent more was spent for housing, for maintaining stable rents, for guaranteeing stable consumer prices, for basic goods and tariffs and for satisfying the growing health, social and intellectual-cultural needs of the population.

The net monetary incomes of the people increased by about M2 billion, that is, over 3 percent. The share of blue-collar and white-collar workers' earned incomes in the monetary income of the people has risen further.

--Retail trade turnover increased by M650 million to M49.5 billion. Services and repairs for the people increased by M130 million.

--In public education the quality and effectiveness of education were increased. The material and personnel conditions for the general education of children and youth were further improved. Altogether 755 classrooms and 9,993 places in kindergartens were made available.

--In the health and social services sector significant results were achieved in improving medical and social care. With the opening of the newly built Charite surgical center in Berlin new possibilities were created for complicated surgical procedures and for the treatment of acute illnesses and high-risk patients.

For outpatient treatment 159 places for physicians and dentists have been set up. Altogether 5,012 places in day nurseries and 1,835 places in old people's and nursing homes were created. A total of 180,000 adults and children were sent to a health resort.

--Physical culture and sports were universally promoted. Their mass character has further developed in all fields, in particular as regards children's and youth sports and leisure and recreational sports.

--The intellectual-cultural life has become richer and more varied. The artists and cultural workers have contributed toward further developing the socialist way of life with new works of literature and art.

The GDR capital Berlin will be further developed, with the strength of the republic, as the political, economic and intellectual-cultural center of the socialist GDR. The 14,000 youths delegated to the central youth project "FDJ Initiative Berlin" have a great share in this.

## I. Industry

The planned stable and continuous development of industry continued as a result of the great initiatives and industriousness of the working people. The production volume in the sphere of the industrial ministries rose 4 percent in the first half of 1982 compared to 1981 and net production increased by more than 5 percent. The share of industry in the production of the national income and of the final economic product has further increased. The plan for industrial commodity production was overfulfilled in each month of the first half of 1982.

The state targets for industrial commodity output were fulfilled by 100.6 percent in the sphere of the industrial ministries. Thus M1.1 billion worth of products in excess of plan were supplied to the population, the national economy and for exports. This is equivalent to the production output of 0.8 days. This lead over the plan was achieved without fully exhausting the planned quantities of power, raw materials and materials.

The plan targets have been exceeded in all industrial sectors.

The plan tasks for industrial commodity output were not fulfilled by such centrally managed combines as the Magdeburg Karl Liebknecht Heavy Machine-building enterprise, the Leipzig Orsta Hydraulics Works and the Neustadt "Fortschritt" Agricultural Machinery Works.

Enterprises subordinated to the  
following ministries:

Fulfillment of the state plan tasks for  
industrial commodity output for the  
first half of 1982 in percentages

Coal and energy	100.7
Ore mining, metallurgy and potash	100.5
Chemical industry	100.8
Electrical engineering and electronics	100.8
Heavy machine and installation construction	100.2
Machine tool and processing machinery building	101.0
General engineering, agricultural machinery and vehicle building	100.2
Light industry	100.6
Glass and ceramics industry	100.3
Geology	103.0
Bezirk-managed industry and foodstuffs industry	100.8

The working people's efforts to improve decisively the ratio between expenditures and results are reflected in the overfulfillment of the plan targets for net production. In this context it is particularly important that basic material costs per M100 worth of commodity production were reduced in excess of the plan. Basic materials costing 99 percent of the planned figure were used for a savings of M650. With an increase in both industrial commodity production and net production 10 percent or more, combines such as the Schwedt Petrochemical Combine, the Carl Zeiss Jena Works, the Berlin Automation Equipment Building Combine, the Erfurt Microelectronics Works and the Leipzig Werner Lamberz Polygraph Works have a great share in developing the capacity of the national economy.

The planned industrial commodity output was fulfilled by 100.7 percent in the sphere of the bezirk economic councils. All economic councils of the bezirks have fulfilled or overfulfilled the plan for industrial commodity production. Some bezirk-administered combines such as the Stollberg Radio and Household Appliances Combine, the Magdeburg Koenigshuette Foundry and Stovebuilding Combine, and the Dresden Metal Goods Works have not fully fulfilled their plans. The planned sales of finished products to the population have been overfulfilled by M140 million.

In the first half of 1982 the range of consumer goods was broadened by new products which are distinguished by higher use value, easier operation and better design. Those combines which predominantly manufacture means of production have significantly contributed to all this by expanding their production of finished goods for the population and by exceeding their tasks for supplying component parts to consumer goods producers.

The working people in the coal and power industry have ensured a continuous supply of fuel and power to the population and economy with their great achievements. As a result of the intensification of the output in the open-cast mines and of the opening of new capacities, the extraction of raw brown

coal was stepped up to 137 million tons, which is 3 percent more than in the first half of 1981. The plan targets for raw brown coal were exceeded by 1.6 million tons and those for sifted coal by 0.2 million tons. The over-fulfillment of production plans for brown coal briquets totaled 112,000 tons, for low-temperature tar 5,300 tons and for pulverized brown coal fuel 19,900 tons. In the opencast pits raw brown coal has been stripped in excess of the plan to ensure stable supplies. The available powerplants output was safeguarded in keeping with the plan. The output of city gas rose 13 percent compared with the same 1981 period. The plan was exceeded, with 55 million cubic meters produced. It was possible with high achievements within the shortest time possible to overcome the effects of the breakdown at the gas purification plants of the VEB Schwarze Pumpe Gas Combine.

The working people of the geological industry have explored the planned increase in deposits to ensure supplies of domestic mineral raw materials and ground water. The natural gas extraction from GDR sources increased 5.1 percent. This is 248 million cubic meters gas more than in the same 1981 period.

The production plans for most of the important raw materials and subcontractor products were fulfilled or overfulfilled. Above-average high-increase rates were achieved, among other products, for high-pressure polyethylene, steel pipes, industrial transmission gears, devices and installations for monitoring regulation and control, and special technological equipment for the manufacture of electronic and electrical engineering products. The plan targets for microelectronics products were exceeded. The output of microelectronic products rose by 30 percent, including a 36-percent increase in the manufacture of monolithic integrated circuits. Additional prerequisites for a broad application of microelectronics in the economy were created through a dynamic production development in that area. More robot technology products than planned have been manufactured. Robot production doubled compared to the first half of 1981.

Labor productivity in industry rose 3.4 percent. The achieved production increase results predominantly from the increased labor productivity. A number of combines have achieved an increase in productivity of 8 or more percent. These include the following combines:

Berlin Automation Plant Building Combine, Carl Zeiss Jena Works, Erfurt Herbert Warnke Transformer Works, Leipzig Werner Lamberz Polygraph Combine and the Schwedt Petrochemical Combine.

A total of 28 combines have stepped up the growth rate of labor productivity compared to 1981.

The quality level of industrial production was further enhanced. Industrial products with the "Q" quality sign valued at M30 billion were manufactured. Numerous products newly introduced into production are helping to meet the advanced international standard with their use value, cost, lifespan, dependability and design. The 547 enterprises which bear the title of

Development of the Production of Major Products in the First Half of 1982  
Compared With the First Half of 1981

Product	Percentage
Electric power	104.3
Raw brown coal	103.1
City gas	112.7
Abs [thermaplastic resins]	114.6
Synthetic silks	108.2
Synthetic fibers	102.4
High-pressure polyethylene	124.1
Steel pipe	105.1
Cast steel products	104.9
Pumps	104.8
Industrial transmission gears	108.7
Fittings	102.1
Roller bearings	106.0
Appliances and installations for monitoring, regulation and control	110.2
Conveyor belts with textile insets	108.4
Cutting machine tools	108.3
Cold forming machine tools	116.9
Processing machines for plastic and elastic materials	113.0
Special technological equipment for the manufacture of electronic and electrical engineering products	106.0
Machinery and equipment for the textile, outerwear and leather industries	100.8
Color film for cameras and motion pictures	110.4
Household washing machines	101.8
Household refrigerators	107.2
Including household freezers	119.3
Small motorcycles up to 50 cubic cm	106.4
Color television sets	116.9
Textile flooring	102.9
Shoes	102.2
Hosiery	102.9
Household and hotel china	106.9

"enterprises of excellent quality work" play a decisive role in the increase in quality. Costs for rejects, retouching work and warranty work per unit of commodity production were below plan. The capacities of the enterprises' own manufacture of rationalization means were expanded particularly through the employment of additional competent skilled workers, design engineers and technologists. The plans for the enterprise manufacture of rationalization means were exceeded in the industrial combines. Important prerequisites for a more rapid introduction of new scientific findings while using the enterprises' own forces have been created with a further development of the

enterprises' own manufacture of rationalization means. The industrial enterprises' own building departments are increasingly contributing to rationalization and to the preservation of assets.

Additional progress in a higher refinement of raw materials and materials have effectively contributed to improving the economical use of power and materials. Thus the increase in the output of products for supplies to the population, for the economy and for exports was achieved through a higher refinement with lower quantities, in absolute terms, of energy sources, raw materials and materials. Good results in manufacturing high-quality products and in cutting production expenditures have, above all, been achieved in the metallurgical and chemical industries. In the metallurgical industry 62 percent of the rolled steel produced was manufactured in the form of highly refined product varieties.

Multifaceted initiatives of the working people in the socialist competition and a tight management have helped to better comply with the further considerably increased requirements for a more rational use of power, raw materials and materials, and to reduce consumption. The specific consumption of economically important energy sources, raw materials and materials was cut by 6 percent compared with the 1981 period. This was decisively helped by the intensified application of material-saving techniques and technologies as well as by the multishift operation of modern equipment. The metal-processing industry has reduced the specific rolled steel consumption by more than 6 percent and consumed some 2 percent less rolled steel than in the first half of 1981, while at the same time increasing its output. The consumption of nonferrous metals, cast products and plastic materials was also reduced. The economic enterprises and installations have succeeded, through purposeful savings and an intensified replacement of imported energy sources with domestic ones, in reducing the consumption of fuel oil by 16 percent, of gasoline by 21 percent, of diesel fuel by 12 percent and of hard coal coke by 8 percent.

Good results have also been achieved in collecting and using secondary raw materials. The share of used secondary raw materials in the overall raw material consumption has been further increased. Increases of 17 and 19 percent in collecting zinc and aluminium, respectively, were achieved compared with the same 1981 period.

All this has been to a growing extent supported by the initiatives of the population. The quantities collected by the population amounted to roughly one-fourth of the scrap aluminium, more than 40 percent of the waste paper, 95 percent of the bottles and glass and more than one-half of textile waste of the overall quantity procured. The results in collecting secondary raw materials still vary in the sectors and branches of the national economy. In the "economic use of materials" drive, the members of the FDJ and of the Ernst Thaelmann Pioneer organization are making a considerable contribution to an intensified collection of secondary raw materials.

The utilization of production equipment in terms of time totaled an average of 15.1 hours per calendar day in industry. Better utilization results than 1981 were scored particularly with the new machines and plants in the

metal-processing industry. The number of combines and enterprises where the production equipment is being used in three full shifts has further increased in that sector. An increase in the utilization level was particularly noted at the Leipzig Werner Lamberz Polygraph Combine, the Leipzig TAKRAF Heavy Machinery Combine, the Karl-Marx-Stadt Fritz Heckert Machine Tool Combine and at the Hermsdorf Ceramics Works.

It is possible to develop considerable reserves by transferring the experiences of these combines which are performing exemplary work in the time utilization of production equipment.

The results in the saving of materials, power and human labor are reflected in a reduction of costs. The overall prime costs per M100 of commodity production were further reduced compared with the first half of 1981. Most combines have undercut the planned overall prime production costs per M100 of commodity production and have obtained cost savings totaling more than M700 million. Playing a special role in this are the Riesa Pipe Combine, The Wolfen Photochemical Combine, the Erfurt Microelectronics Combine, the Magdeburg Gear and Clutch Building Combine, the Karl-Marx-Stadt Household Appliances Combine and the Weisswasser Lausitzer Glass Combine.

Some combines such as the Schkupau Buna Chemical Works, the Suhl IFA Two-Wheel Vehicle Building Combine and the Heidenau Cellulose and Paper Combine impaired the overall good results by exceeding costs. The working people of water management ensured supplies of drinking water for the population and of industrial water for all sectors of the national economy.

The planned measures for improving water supplies and the treatment of waste water as well as for ensuring the apartment building program have been carried out. Through planned investments and achievements by the people more than 13,000 households were hooked up to central drinking water systems. The alert forces of water management, in collaboration with the forces of civil and defense and the national Peoples Army [NVA] and with voluntary helpers, performed great exploits in warding off the icy floods of the Oder River early this year. Flood protection for the population and the national economy was guaranteed.

## II. Science and Technology

During the first half of 1982 the economic effectiveness of science and technology for solving national economic tasks was enhanced. Through an examination of the objectives of all scientific-technical tasks the research and development potential was more strongly focused on the economically urgent tasks, the targets related to the development and production of top products, to the replacement of economically ineffective imports, and to the improvement of the thrifty use of material and power, in addition to shortening the time period for implementing research and development tasks and introducing them into production. Two-thirds of the research and development tasks now have implementation deadlines totaling 2 years or less.



The output of top products for the economy's own use and for exports increased by 13 percent compared with the same 1981 period and thus grew more rapidly than commodity production as a whole. As a result it was possible to further improve the effectiveness of the production and export structure, particularly through higher-grade refinement.

A total of 245 million work hours were saved in the economy through the application of scientific-technical findings. This is the equivalent of the labor potential of 266,000 working people in that period. This was also helped by the use of industrial robots and microelectronic control devices within the framework of the technological transformation of production and manufacturing. Thus the increase in productivity was in essence brought about by the utilization of the findings of science and technology.

As a result of the remodeling and new fashions of 114,000 work places on the basis of the findings of the scientific labor organization [WAO], easier working conditions went into effect concurrently with increases in productivity. Difficult physical working conditions and unhealthy conditions have been eliminated for another 11,000 working people.

The application of scientific-technical findings to save power resulted in a reduction of specific energy consumption totaling 6.7 million tons of raw brown coal. At the same time solutions were found to replace fuel oil and imported solid fuels with pulverized brown coal dust, brown coal high-temperature coke and raw brown coal, and a start was made in using them productively.

Through an improvement of the expenditure-result ratio, the application of norms for materials consumption which meet advanced scientific-technical standards, the introduction of microelectronics and the employment of more highly refined varieties of materials, we obtained a reduction in the consumption of rolled steel by 210 kilotons, and savings of cast products by 25 kilotons, of aluminium by 5 kilotons, and of cement by more than 200 kilotons.

The economic efficiency level of science and technology was further enhanced through the purposeful elaboration and broader utilization of scientific-technical findings in order to improve the economical use of power and materials, combined with a reduction in the consumption of imported materials and raw materials whose prices are increasing.

The tasks of the state plan for science and technology as well as the combines' plans for science and technology beyond the state plan were fulfilled. A total of 929 tasks of the state plan for science and technology were fulfilled in keeping with the plan and another 43 tasks were fulfilled ahead of schedule. This is 41 percent of the tasks planned for this year.

The proper prerequisites were created, with the research and development findings introduced into production in the first half of 1982, for an annual production volume of new top quality products for supplies to domestic consumers and for exports with a total value of M12 billion.

The required level--compared with world standards--has not yet been achieved everywhere with respect to introducing new production. In many cases too much time still elapses between the start of research and development work and the full impact of the findings on production. The conditions required to produce new products on the scale required for the economy and for effective exports and supplies are often not created purposefully enough.

Some combines have failed to fulfill the plans for science and technology by the end of the first half of the year. This particularly concerns the Dresden Pharmaceutical Combine, the Berlin "7 October" Machine Tool Building Combine, and the Karl-Marx-Stadt Household Appliances Combine.

The economically important findings of science and technology introduced in the first 6 months of 1982 include the following:

- more highly refined metallurgical products, including precision pipe, new varieties of steel rods, superfine copper wire for the electronics industry as well as spring band steel;

- the process for the floating method for pulling of large-diameter silicon crystals, the introduction of new microelectronic circuits and the broadening of the range of passive components in keeping with the requirements for the use of microelectronics;

- expanding the use of industrial robots in integrated production sections of the metal-processing industry, for rationalizing the manufacture of machinery for chemical plant construction, in maintenance work and spare parts manufacture, in the production of drawn parts, and in welding processes in the production of gas appliances;

- processes for reducing heating-fuel consumption in generating electric power and introducing energy- and water-saving refining processes in the textile industry.

Newly developed color TV sets, high-quality clocks and watches, highly refined materials for fashionable clothing, new living room and upholstered furniture, and home tools helped to expand the supply of consumer goods.

The findings of practice-oriented basic and applied research at the GDR Academy of Sciences and at universities and colleges have created a lead in economically important areas for the future development of performance and effectiveness. This particularly applies to work on developing new solutions for robots, processes and elements of microelectronics, as well as for using domestic raw materials and for replacing specific materials of which sufficient quantities are not available. The academy of sciences, universities and colleges have worked out 33 top results within the framework of the state plan for science and technology and have handed them over to combines for utilization.

Cooperation with the USSR and the other CEMA member countries greatly helped to solve the tasks of science and technology. The targets defined by government and ministerial agreements were reached and cooperation with the USSR was

further developed, particularly in the fields of microelectronics, robot technology and energy and material-saving techniques. This cooperation contributes significantly to accelerating scientific-technical progress in the GDR.

A further increase in patent registration is an expression of the higher technical level of research findings. The number of inventions registered for patents increased by 14 percent compared with the same 1981 period.

The scientific-technical creative activity of youth was more intensely focused on solving demanding tasks from the plans for science and technology through the movement of the Fair of the Masters of Tomorrow and the FDJ initiatives "Economical Use of Materials," "Microelectronics" and "Industrial Robots." The centrally assigned youth projects of the state plan for science and technology were undertaken according to plan in the first half of 1982.

More than one million working people participated in the innovators' movement in the national economy. An annual benefit of M2.6 billion will be achieved with the innovations put into practice in the first half of 1982.

### III. Investments

A total of M22 billion were invested in the national economy to perfect the material-technical base according to plan, particularly for its modernization and to carry on social policy. The available investment means were employed with greater national-economic effectiveness.

Investment activity was aimed more than in the preceding years at a quick economic utilization of scientific-technical progress. For such sectors as microelectronics, robot technology and the refinement of raw materials 15 percent of industrial investments were used. Thus important prerequisites were created for improving the technical and technological level of production, especially by the automation of entire production processes, as well as improving the expenditure-result ratio. In the first half of 1982 the number of robots used in the economy increased to 16,500.

More rationalization investments were carried out to modernize the existing basic assets and to increase their effectiveness. Their share in the total investments of the producing sectors was 41 percent. This was effectively supported mainly by a substantial increase in the enterprises' own production of rationalization means. Twenty percent of the equipment investments in the industry ministries' sector are the result of production of rationalization means within the enterprise. This has helped raise numerous existing plants to a completely new production level and further improve the ratio between the saving of existing jobs and the creation of new jobs.

In machine building and in the bezirk managed and foodstuffs industries, more jobs have been saved than were newly created.

With the increasing emphasis on modernizing existing basic assets and on the intensified application of modern construction-technological solutions, it was possible to reduce the share of construction in investments.

Investment activity focused on the speedier completion of projects already under construction. The number of newly started projects was further reduced. This made it possible to shorten the periods of implementation and to reduce the investment expenditures.

A large number of units were put into operation ahead of schedule and had a positive effect on increased output. The technical-economic goals have been overfulfilled at a number of projects and the earmarked start-up times were shortened.

The planned increase in goods production from centrally planned investment projects was achieved. It amounted in the first half of 1982 to M1.9 billion. One hundred and forty-five units from centrally-planned investment projects went into permanent operation; 19 were completed ahead of schedule. The putting into operation of 22 microelectronics units and 8 refinement units is of great importance for a high economic effectiveness.

The facilities put into operation in the first half of 1982 include:

--mining facilities for safeguarding the energy and raw materials production for crude brown coal at the Delitzsch-Southwest and Cottbus-North open pit mines, units for producing rock salt at the Stassfurt VEB "Saale" Potash and Rock Salt Works, as well as for producing chlorine and soda lye at the Bitterfeld VEB Chemical Combine;

--facilities for the higher refinement of energy resources, raw materials and materials, such as the Konti Wire Rod Mill at the VEB Brandenburg Steel and Rolling Mill Works; units for the production of aluminized strip steel at the VEB Bad Salzungen Cold-Rolling Mill Works; of higher-quality motor gasoline at the "Walter Ulbricht" Luena Works; of chemical fiber cellulose at the VEB Pirna Associated Chemical Pulp Works; and spinnable chips for polyester fine silk at the VEB "Herbert Warnke" Chemical Fiber Works in Guben;

--units for manufacturing microelectronics and electrical engineering products such as solid-state circuits and chips at the VEB Erfurt Funkwerk (Radio Works); silicon diodes at the VEB "Wilhelm Pieck" Microelectronics Works in Muehlhausen; silicon transistors and solid-state circuits at the VEB Frankfurt/Oder Halbleiterwerk (Semiconductor Works); integrated circuits at the VEB Hermsdorf Center for Microelectronics Research and Technology;

--facilities for subcontractor products such as electric motors at the VEB Wernigoerode Electric Motor Works; high-performance cables at the VEB Nord Cable Works at Schwerin; roller bearings at the VEB "Willy Saegbrecht" Roller Bearings Works at Luckenwalde; ballbearing slewing rims at the VEB Eberswalde Crane Building Works, and controls at the VEB Erfurt Power Plant Construction Enterprise;

--facilities for capital goods such as cutting machine tools at the VEB Aschersleben Machine Tool Factory, shaping machine tools at the VEB Zeulenroda Machine Tool Factory, modern crushing machines at the VEB Ernst Thaelmann Heavy Machine Building Combine in Magdeburg, and packing machines at the VEB Magdeburg Beverage Machine Building Enterprise;

--units for consumer goods, such as for the production of quartz watches and clocks at the VEB Ruhla Clock Works, household refrigerators at the VEB Scharfenstein DKK, color TV sets at the VEB Friedrich Engels Television Works in Stassfurt, functional and ornamental lamps at the VEB "Rosa Luxemburg" NARVA Combine in Berlin, men's shoes at the VEB Meissner Shoe Factory, and household and ornamental chinaware at the VEB "Weimar-Porzellan" Porcelain Works.

In the Herman Matern Strip Steel Combine in Eisenhuettenstadt, the Wolfen Photochemical Combine, and Buna Chemical Works some units were not put into operation on schedule.

The investments for housing construction, education, public health and social services, culture, recreation, physical culture and sports amounted to M6 billion. The newly constructed facilities that were put into operation included 31 secondary schools and 1,500 work, seminar and lecture hall places. With the Charite surgery center, 1,156 beds, 24 operating theaters, diagnostic stations and research laboratories were put into operation. Thanks to the newly-built bezirk hospital in Karl-Marx-Stadt with 776 beds, treatment and diagnostic facilities, the medical care in this workers' center was tangibly improved. Numerous central pioneer camps were reconstructed. Thus better conditions were created for organizing holidays.

The reconstruction measures at the Platz der Akademie and the new construction of the Friedrichstadt Palace in the capital city Berlin, and reconstruction of the Semper Opera in Dresden, were continued according to plan. The building of an Inter-Hotel in Dresden has begun.

#### IV. Construction

The working people in the construction sector overfulfilled the plan targets every month.

Building production increased 3.1 percent compared with the first half of 1981. The plan was fulfilled 100.7 percent. The accomplished lead in plan fulfillment is equivalent to 0.8 percent of daily output. At the same time it was possible to reduce the absolute production input.

High increases in production and good results in plan fulfillment were achieved by: the Sued Building and Assembling Combine in Leipzig, the Halle Chemistry Building and Assembling Combine, and the Gera and Suhl Housing construction combines.

In industrial production the share of construction work in rationalization and reconstruction projects has further increased. The building volume of industrial enterprises having construction departments of their own went up 6 percent compared with the first half of 1981.

The plan targets of the production of building materials and products of the prefabrication industry were fulfilled 100.9 percent.

The performance and production increase has been accomplished primarily through better utilization of the qualitative factors of economic growth. The endeavors of the working people to raise effectiveness, and to improve the ratio of expenditures to results led to an overfulfillment of the net production plan by 4 percent. Here it is of great importance that the basic material costs per M100 worth of production in the construction sector were kept below the target figures.

The labor productivity plan targets in the construction sector were overfulfilled in the first half of 1982. An important factor in this was the fact that 253 pilot projects of the science and technology state plan and enterprise plans were introduced into production. The introduced measures resulted in a reduction of the specific construction expenditures and a shortening of building times as well as the implementation of energy-saving construction. The use of rolled steel was reduced by 4 percent, that of timber by 3 percent and that of cement by 3 percent.

A total of 89,217 apartments were newly built or modernized. The plan was overfulfilled by 3,342 apartments: 58,909 housing units have been newly built, including 7,830 privately-owned houses, and 30,300 apartments were modernized. The plan targets for the construction of new housing units have been fulfilled or overfulfilled in all bezirks except Dresden.

The following community facilities were newly built: 5,012 nursery places, 9,993 kindergarten places, 755 classrooms and 48 gymnasiums at general-education secondary schools. For old citizens 1,835 places in old-age and nursing homes and 1,628 places in rooming houses have been completed. Thus the plan targets for the construction of new community facilities were overfulfilled. In some kreises the plan targets have not been completely fulfilled, or target requirements for specific locations have not been completely met.

The volume of repairs of apartment buildings went up 7 percent compared with the corresponding period of 1981. The plan was overfulfilled. The people contributed with endeavors of their own, within the framework of the "join in" competition, toward improving housing conditions. Thus 60,000 apartments were modernized for old and handicapped citizens.

In the capital city Berlin 9,217 apartments have been newly built or modernized. The overall building volume plan targets of the building enterprises of the GDR bezirks for the capital were overfulfilled on the whole. An important contribution to this was made by the young building workers in the "FDJ Initiative Berlin."

## V. Agriculture, Forestry and Foodstuffs Industry

The cooperative peasants and workers in agriculture, forestry and the foodstuffs industry have made great efforts to ensure the supply of the people with foodstuffs and of industry with raw materials. In preparation for, and evaluation of, the 12th Farmers Congress, many activities and new initiatives have been launched by the working people in agriculture, which are mainly aimed at ensuring the fulfillment of higher yield targets in the fields and stables with the planned assets, and at improving the expenditure-result ratio. Exemplary for this are the experiences that have been gathered in the LPG's of Demmin Kreis. By utilizing such experience and by performance comparison between enterprises, large reserves can be tapped for increasing production and effectiveness, and unjustified differences can be overcome.

At a great number of cooperatives and state farms high performances and a high effectivity was achieved.

In the first half of 1982 the state procurement plan for animal products was overfulfilled for poultry and eggs. Regarding cattle and hogs for slaughter and regarding milk the planned procurement figures were not fully reached.

### Fulfillment of the half-year state procurement plan 1982

	<u>Kilotons</u>	<u>Percent</u>
Animals for slaughter, total	1,162	98.1
Including: Poultry	84	106.5
Milk	3,717	95.1
Eggs (in millions)	2,689	105.4

On 30 April 1982 the following livestock was in existence:

	<u>Number of animals in millions</u>
Cattle, total	5.8
including: Cows	2.1
Hogs	11.4
Sheep	2.5
Egg-laying hens	27.8

An important contribution toward improving the people's supply with fruit, vegetables, eggs, honey and white meat, and of industry with wool, hides, and feathers, was made by the cooperative peasants and workers working private plots, and by the more than 1.1 million small gardeners, settlers and small livestock breeders and other small producers.

The spring sowing was in accordance with plan and of a high quality. Summer grain was sown on 953,000 hectares. This includes 299,000 hectares which due to winter damage had to be resown anew. Thus 2.5 million hectares are sown with

grain in accordance with the plan. In accordance with the targets, 505,000 hectares were planted with potatoes, 258,000 hectares with sugarbeets and 367,000 hectares were sown with green corn and corn for silage.

As a result of amelioration work the water regulation was improved on 32,000 hectares of agricultural land and thus the yield was increased.

In the production within the cooperatives of rationalization means an increase to 112 percent was achieved in the fields of agriculture, forestry and foodstuffs.

The working people of the foodstuffs industry implemented the plan of the industrial goods production 100.5 percent.

Forestry made available 4.8 million cubic meters of raw timber for the national economy. It fulfilled the annual plan 51 percent. As a result of the great efforts of the working people in forestry, of the FDJ action "healthy forest" and of the support of cooperative peasants and of additional forces, enterprises and institutions and of voluntary work by the population, the targets for eliminating snow and wind break damage were fulfilled in the first half year with 1.4 million cubic meters of the 2.6 million cubic meters of raw timber planned for 1982.

The necessary measures for the protection of the forests against forest pests were successfully implemented.

## VI. Transportation, Postal Affairs and Telecommunications

The working people of the transportation sector achieved further successes in shifting transport from the roads to railways and inland navigation and in more rationally shaping the delivery and transportation relations. This resulted in improving the transportation economy and in reducing fuel consumption.

Compared with the first half of 1981 the amount of transported goods was reduced by 52 million tons to 475 million tons of goods altogether. The share of the railroads and inland navigation in the goods transportation performance in domestic transportation increased from 72 to 77 percent. The specific transportation expenditure of the national economy was reduced by 9 percent.

The railroad transported 158 million tons of goods. Altogether 3 percent more goods were loaded than in the first half of 1981. A number of freight stations and branch lines were reopened to further reduce the fuel-intensive road traffic. Thus a significant number of enterprises with transportation intensive production were connected to the railroad network. In the first 6 months, 93 kilometers of the railroad network were electrified. With the electrification of the Seddin freight station, one of the most efficient switching yards for GDR freight transportation and for the transit traffic has been included in the electrified network. The share of transportation carried out with the electric locomotives rose from 21 to 25 percent. The increased use of electric locomotives resulted in a saving of diesel fuel.



Reserves for a further increase in the performance of the railroad lie above all in the higher utilization of the freight cars and in particular in the acceleration of the freight car turnover by keeping to the schedules for loading and unloading the freight cars.

Altogether 8 million tons of goods were transported by inland navigation. A considerable increase in performance was achieved in the second quarter of 1982.

In road transportation it was possible to reduce the amount of goods transported by over 50 million tons. The demands of the economy were met by the public transportation. Enterprise transportation was--in accordance with its tasks--mainly used in the local traffic.

In the GDR harbors 7 percent more goods were loaded than in the first half of 1981. The planned loading time was undercut.

Public transportation services carried on average 11 million people per day. In commuter and local traffic the quality of service was raised by an improved division of labor among the means of transportation in particular in the cities and densely populated areas, with priority being given to rail transportation.

Altogether 160 streetcars and 137 coaches were included into the network. New residential areas were developed for transportation.

The contributions of the postal and telecommunications sector increased by 4.8 percent. Thus the plan targets were overfulfilled. In the teletype and telephone sectors the contributions rose by 6 percent. About 18,000 main telephone connections, including 4,000 in the GDR capital, were installed.

Television transmitted 89 percent of its program hours per week in color and radio transmitted 407 hours in stereophonic sound.

## VII. Foreign Trade

As a result of the high achievements of the working people of the combines, enterprises and foreign trade enterprises, GDR exports rose by 10 percent. A considerable increase of the foreign trade turnover and a favorable trade balance was achieved with the socialist countries.

Foreign trade with the USSR and the other CEMA member countries formed the firm basis for the economic development of the GDR. The biggest trade partner of the GDR is the USSR with a share of 39 percent in the foreign trade turnover. Exports to the USSR increased by 11 percent. The plan for exports to the USSR was fulfilled 101.4 percent.

With the purposeful implementation of the program of specialization and cooperation of the production between the GDR and the USSR through 1990 the qualitative level and the rate of growth of the mutual deliveries are increasingly determined by the research and production cooperation on the basis of agreed plans.

Within the framework of socialist economic integration further measures went into effect for securing the raw material and energy base on a long-term basis for the supply of the population with consumer goods, for the development of the economic and scientific cooperation as well as of the specialization and cooperation of production.

Work on the "natural gas pipeline" central youth project in the Soviet Union was started.

Cooperation with the developing countries in the economic and scientific technological fields was further developed on the basis of equal rights and mutual advantage.

High growth rates were achieved in exports to the developing countries and to the capitalist industrialized countries. Thus a favorable trade balance of over 1 billion valuta marks was achieved with these countries.

Not everywhere was production sufficiently oriented toward products that are qualified for the world market and are profitable in foreign exchange terms in order to meet the demanding market requirements.

#### VIII. Development of the Material and Cultural Living Standard of the People

Thanks to the strenuous work of the working people our sociopolitical program was successfully continued despite interference and impairment from outside.

With the continuation of the housing program the living conditions for 267,000 citizens, in particular in the workers class centers, were improved. The newly built or modernized apartments were, above all, given to workers, young couples and families with many children.

In the first half of 1982, 120,824 children were born.

Payments by the state from the social funds for improving the material and cultural living conditions of the people amounted to M31.2 billion, that is, 5.8 percent more than in the same 1981 period. All in all M5.1 billion was made available for the housing sector and to maintain stable rents, M9.7 billion to guarantee stable consumer prices for essential goods and tariffs and M16.3 billion to satisfy the growing health, social and intellectual-cultural demands of the people. The expenditures for kindergartens and day nurseries amounted to M1 billion and for school meals, to M425 million.

Net monetary incomes of the people increased by M2 billion, that is, over 3 percent. The share of earned income of the workers and employees in monetary income of the population was further increased. In the centrally managed enterprises of the industrial ministries an average end of the year bonus of M832 was paid per worker and employee for 1981.

Retail trade turnover rose by M650 million to M49.5 billion. The supply of the people with basic foodstuffs was guaranteed according to plan.

Quantitative Procurement of Goods for Essential and Nonessential Food and Beverages in the First Half of 1982 Compared to the First Half of 1981

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	<u>In percent</u>
Meat, meats and sausages	101
Fresh vegetables	105
Fresh fruit	100
Sugar	113
Fish and fish products	101
Fat cheese	101
Eggs	104
Whole milk	101
Alcoholic beverages	104
Wine and sparkling wine	100
Roasted coffee	104

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In close cooperation with the trade enterprises the industrial combines have further improved the supply of the people with industrial consumer goods. Numerous new products were made available for the people, products which are marked by solid production quality, durability, high efficiency, low repair expenditure and attractive design.

For a number of products the planned growth rates were surpassed.

Quantitative Procurement of Goods From the Domestic Production and Imports in the First Half of 1982 Compared with the First Half of 1981

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	<u>In percent</u>
Color television sets	102
Motorcycles	123
Household freezers	118
Washing machines	103
Electric stoves	104
Bicycles	105
Tires for bicycles	105
Gasoline	109
Wallpaper	104
Knitted underwear for babies	106
Diapers	105
Cellulose diapers	130
Ladies shoes	100

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In accordance with the differentiated development of demand, goods in all price groups have been made available. Here the products of the medium-price groups with a solid standard quality formed the main part of the goods supply.

Services and repairs for the people were carried out to the value of M2.7 billion. This equals an increase by M130 million, that is, 5 percent. The enterprises of the cooperative and private small business increased their services and repair work for the people by 5.1 percent and the state-owned service enterprises by 4.7 percent. About two-thirds of all services and repair work for the people were carried out by artisan enterprises.

Repair services, in particular of technical consumer goods, increased to 103.4 percent; of these, electrical household appliances repair increased to 106.4 percent. Automobile repairs for the people increased to 102 percent. The demand of the people for textile cleaning services was covered with short delivery times.

In popular education the quality and effectiveness of education and training has been increased. The polytechnical nature of the secondary schools was further developed. The material and personal conditions for the general education and training of children and teenagers have improved. A total of 755 classrooms, 48 school gymnasiums, 90 boarding school places and 9,993 kindergarten places were newly established.

School meals and milk supply were ensured at all schools. Three-fourths of the pupils and students participated in the school meals program, and two-thirds in the milk program.

The polytechnical training of the students has been further improved.

The students of the 7th to 10th grade were taught by 9,445 full-time and 26,400 part-time teachers.

In the field of vocational training good results were achieved through a variety of initiatives by teachers and instructors in training fully qualified young people for all sectors of the economy. For everyone who leaves school an apprenticeship or study place is available. Eighty-seven percent of the students who start a vocational training have completed the 10th grade of secondary school. Training for apprentices is provided in 290 vocations. To perfect the material-technical conditions in vocational training, 46 classrooms and 2 gymnasiums as well as 832 places in apprentice homes have been newly provided. One-fourth of the apprentices live in apprentice homes.

In higher and technical schools effective work has been done to ensure the training and communist education of the students and the young generation of scientists at a high professional level.

Through more precisely specified teaching programs and teaching subjects, education was improved and the level of specialized education was raised. The universities and higher schools contributed toward putting important

research results more quickly to practical use, thus accelerating the scientific lead. The cooperation, based on the principle of division of labor, with the practical sphere, especially with the combines, was intensified on the basis of comprehensive contracts.

The advanced training of university and technical school cadres was specifically developed and focused on national economic key points. This applies especially to the acquiring of knowledge in the field of microelectronics. The working, study and living conditions at the higher and technical schools were further improved; 1,500 work, seminar and lecture hall places were newly provided.

In the health and social services sector the quality and effectiveness of medical care for the people has been further improved. The improvement of medical care was focused primarily on basic medical care in the big cities and industrial centers. By putting into operation the Charite surgical center in Berlin, new opportunities were provided for further developing the specialized and highly specialized medical care, as well as for raising the level of teaching and research. In the Charite the number of annual operations increased from 13,000 to 18,000 and the treatment of intensive-care patients from 2,000 to 7,000.

In outpatient medical care, further progress has been made through raising the number of physicians especially in the specialties of general medicine, pediatrics, neurology, psychiatry and stomatology. At numerous health institutions the early morning, late afternoon and Saturday consultation hours were extended. Ninety-six outpatient facilities for physicians and 63 for dentists were newly provided. At the 3,000 enterprise health clinics 6 million working people are given medical care, that is, over two-thirds of all working people.

Some 180,000 adults and children were sent to health resorts, mostly shift workers and working women.

Special social care was given to working mothers and their children. A total of 5,012 places at nurseries were newly established.

Further progress was made in care for mentally and physically handicapped persons. Special supportive treatment was provided at appropriate institutions for 13,500 mentally handicapped children and teenagers. About 35,000 seriously and extremely seriously handicapped citizens are working in protected workshops and enterprise departments, or at protected individual working places, including 30,500 at production enterprises.

The housing and living conditions of citizens of retirement age have been further improved. For elderly citizens and citizens in need of care, 1,835 places in old-age and nursing homes have been provided, as well as 1,628 places in rooming houses.

Physical culture and sports have been generally promoted. Their mass character has been further developed in all sectors, especially in children's and youth sports as well as in leisure-time and recreational sports. More than 4 million

people participated in manifold ways in sports activities. The GDR German Gymnastics and Sports Federation (DTSB) increased its societal effectiveness especially by the establishment of new sports communities, sections and sports groups. Nearly all children and teenagers participated in the 18th Kreis Spartacus Games in a great variety of sports.

In world and European championships the GDR athletes won a total of 14 gold, 19 silver and 13 bronze medals.

The intellectual-cultural life has become higher and more multifaceted. With new works of literature and art, the artists and cultural workers have contributed toward the further specific development of the socialist way of life.

The 19th Workers Festival and the cultural festivals of the working people in socialist agriculture in Neubrandenburg Bezirk were an impressive display of achievements, a popular celebration and exchange of experience of the culturally creative forces and artistic talents of the workers class, cooperative peasants and especially the youth of the GDR. The 425 events with more than 10,000 people's and professional artists were a convincing manifestation of the affinity of the people with arts in socialism.

A visible expression of the further raising of the cultural level of the working class and of the increased interest in cultural and artistic works of the people were the Berlin days of people's art at the Palace of the Republic. Some 4,000 performed from 178 people's arts collectives gave pleasure to 150,000 Berliners and guests.

Festivals of friendship in 138 kreises of the GDR convincingly documented the unbreakable alliance of the GDR and the USSR in the struggle for the preservation and safeguarding of peace and the well-being of the peoples. The 10th congress of the GDR Cultural League clearly demonstrated that the cultural league has succeeded in substantially expanding its influence on the intellectual-cultural life in town and countryside.

A great effect on the masses was produced by cultural events such as the 12th Festival of Political Songs in Berlin, and the Fifth GDR Music Days, the Sixth Competition of Entertainment Art Performers, and the Second National Motion Pictures Festival of the GDR in Karl-Marx-Stadt.

The GDR book trade offered 2,800 books with a total of 68 million copies, as well as more than 9 million records and music cassettes, which contributed toward better meeting the growing cultural demand.

The opportunities for high-level recreational activities of the young people were expanded through new youth club institutions in the residential areas.

The cultural cooperation with the fraternal socialist countries was deepened and consolidated. Numerous artists and ensembles of the GDR gave guest performances in the Soviet Union and other fraternal socialist countries. Renowned GDR theater ensembles and orchestras also performed in other countries. Successful tours abroad were made by the Dresden Staatskapelle Orchestra to Austria and to Switzerland, by the Gewandhausorchester to Great Britain--which marked its seventh concert tour to this country, and by the German State Opera Ballet to Italy.

Through the participation of publishers, artists and organizations from 82 countries of all continents, the 1982 International Book Art exhibition (IBA) was another confirmation of the international importance of book art in the worldwide struggle for the preservation of peace and the strengthening of socialism. The exhibition was attended by some 60,000 visitors, including experts from 34 countries.

An important part was played by the fostering of the humanist cultural heritage. The commemoration by the SED Central Committee and the GDR Council of Ministers of the 150th anniversary of Johann Wolfgang Goethe's death was the high point of multifarious commemorative festivities. Further commemorative festivities were held on the occasion of the 300th anniversary of the birth of Johann Friedrich Boettger, the 250th anniversary of the birth of Joseph Haydn, the 150th anniversary of the birth of Wilhelm Busch and the 200th anniversary of the birth of Friedrich Froebel.

The Whitsun meeting of youth in all GDR bezirks constituted an impassioned pledge of the GDR's young generation for peace, disarmament and socialism. The 3,000 events, including 170 mass rallies, were attended by over 4 million FDJ members, young pioneers, and other working people. In Magdeburg Bezirk the days of friendship between the GDR and the CSSR youth were held, with 250,000 participants.

The outstanding working results achieved by the working people in the first half of 1982 supply evidence of the fact that the 10th SED Congress decisions are supported by the entire people. Through the further strengthening of the performance capacity of the GDR national economy good prerequisites have been established for the fulfillment and purposeful overfulfillment of the ambitious 1982 plan tasks, as well as for the preparations for the 1983 national economic plan.

The consistent implementation of the strategy adopted at the 10th Party Congress requires an even closer linking of the advantages of the socialist planned economy with the initiatives of the working people and with scientific-technical progress, so as to carry on successfully the main task in its unity of economic and social policy for the benefit of the workers class and of the entire people.

The resolutions of the Fourth Plenum of the SED Central Committee make it clear that continued performance increase in the national economy will be determined by the stronger utilization of the qualitative factors of economic growth. It is necessary everywhere to ensure universally the intensively expanded reproduction, to turn out more and qualitatively better products with less expenditure, to better utilize our own opportunities, and to make do with what we have. This makes it necessary to reach an essentially higher level of labor productivity and effectiveness, to wage still more resolutely the struggle to reduce costs and thus to further reduce the expenditure of human and material labor. The cardinal and pivotal point of this is to still more effectively link the advantages of socialism with the achievements of the scientific-technical revolution.

In the management activity of the state and economic organs it is essential to promote the creative initiatives of the working people and to develop the performance comparison, so as to ensure the fulfillment of the ambitious targets of the economic plan month by month, week by week, day by day, as well as to carry out the pledges made by the working people in socialist competition. This requires that in all combines, enterprises, institutions and cooperatives, the experiences of the best be made the yardstick of one's own performances and the principles of socialist management and socialist thrift be consistently applied so as to make a high contribution to the development of the national income and fundamentally to improve the ratio of expenditures to results.

With a high zest for achievement and outstanding work feats, the working people have devoted all their energy to the universal strengthening of our socialist fatherland and thus have made their most important contribution toward the safeguarding of peace.

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## HUNGARY'S PRICE MECHANISM CRITICALLY ANALYZED

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[Article by Dr Sandor Fulop, economic director of the Cotton Printing Industry Enterprise: "The Most Important Experience With the Change of the Price Mechanism"]

[Excerpts] Introduction of the "competitive price system" (to use the expression by which it is most often mentioned) as of 1 January 1980 has unquestionably been economic management's most significant measure, and the most comprehensive in terms of its impact, since the start of the economic reform in 1968. Many regard this step, and justifiably so, as an important stage in making more complete the process begun 14 years ago.

As any significant change affecting the operation of enterprises, introduction of the new price system and price mechanism was accompanied by debates in which many arguments and counterarguments were presented. Now, two years after introduction, the debates have not ended, although their nature has changed considerably. Attention now is focused not on the basic concept, rather on how the system functions, on its action mechanism, on the possibilities of perfecting it, etc. The issues raised in the extensive debate include questions of fundamental importance, as well as questions pertaining to an analysis of the price mechanism's "technical system" and of related areas. The contributors to the debate include, besides scientists and staff members of the managing organs, also very many executives from the different levels of enterprise management. Articles by enterprise experts were the first to raise, and to formulate most clearly, some very important questions such as, for example, incentives to expand the export volume.

The objective of this study is rather limited: it strives to investigate the relationship between enterprise operation on the one hand, and the new price system and price mechanism on the other, primarily in the light of the enterprises' experience, basically--pursuant to National Material and Price Office Regulation No 6/1979--"of the manufacturing enterprises included in the circle of pricing geared to export prices (so-called leading enterprises)." (We will completely disregard the questions of the price mechanism employed in ruble-denominated export.)

Enterprise operations, their profitability and changing profit are influenced by very many factors; moreover, the extent of their influence varies considerably. The price mechanism, too, exerts its influence within the entire system of economic management. When making their business decisions, the enterprises must take into

consideration the entire system of economic regulators, besides the objective environmental factors and internal conditions. Likewise the effects of the price mechanism can be interpreted and explained only jointly with the influence of the other elements of regulation.

The price system's effects on enterprise operations are in the focus of our investigation, but we cannot dispense with a brief review of how the objectives of the new price mechanism's introduction have been fulfilled so far. In the course of such an analysis we must investigate--although again only very superficially--two further questions: on the one hand, to what extent have the objective factors of the entire Hungarian price system and price mechanism, the Hungarian economy's relevant international economic (and political) environment, differed from the assumptions made at the time of planning the new price system and price mechanism; and on the other hand, how have the differences between the assumed (planned) and the real processes of the Hungarian economy affected the functioning of the price mechanism.

#### General Evaluation of the New Price Mechanism's Effects

Speaking in very broad outline, it can definitely be said that the new price mechanism has produced profound changes in the business actions (business policies) of the enterprises concerned and, more importantly, in their business outlook and methods.

These changes reflect the fact that under the new price system the enterprises' cost structure has undergone radical change, and that the costs of energy and materials are based essentially on the level of the world-market prices and follow the movement of these prices; furthermore, that in domestic pricing the production-cost principle has been replaced with adjustment, in some way or another, to the world-market prices.

The specific effects on enterprise operations are as follows:

- a. Greater cost- and market-sensitivity;
- b. A strong incentive to raise the level of export prices, to improve the commodity structure, and to select the most favorable customers (markets);
- c. Cost reductions, and the uncovering of internal reserves.

The indications of a change in business outlook are as follows:

- a. Continual spreading of the investigation of product and market profitability among the enterprises (increasing application of breakeven point analysis, the classification of products by profitability, etc.);
- b. Growing interest in marketing-oriented enterprise management and in its technical tools.

The effects designated as "specific" can be readily identified also in the short term (and most of them can also be quantified). But the results of the changing business outlook will be long-term results, and even then they will be realized in the "specific" effects. In the long run, however, the changing business outlook could produce the greater and more lasting results.

In their trend these changes are favorable in many respects, and the enterprises have been able to achieve them as follows:

--The requirements of a flexible price mechanism and of price stability have essentially been met simultaneously (at least in 1980, but even in 1981);

--Within the area of the competitive price system's application (except in a few sectors) the level of domestic prices did not exceed the level defined by the export prices;

--The prices of finished products rose by less than what the raw material prices would have warranted; and this occurred without official intervention, something unprecedented before 1980.

At the same time the new price mechanism revealed more sharply also the weaknesses that are widely characteristic of enterprise management. For example:

--Slowness in recognizing market situations and in reacting to them;

--A general absence of the ability and willingness, respectively of the structural and capital conditions, that are a prerequisite for faster adjustment; the inadequate spreading of marketing-oriented management;

--Delays in the process of transforming the product structure, in developing marketable products and in bringing them to market, as compared with competitors.

#### Improvement of the Profitability of Export and Development of the Export Volume

The very significant improvement during the past two years in the profitability of earning foreign exchange through export was not accompanied by the planned increase of the export volume, and in many sectors the value of export even declined. In order to improve the profitability of their export and to raise the price level of their exports--and in conjunction with this, to improve their domestic profitability and domestic price level--very many enterprises were selective in their export markets, discontinuing or sharply curtailing the export of their uneconomical products. In itself the selection of export markets can be considered as a natural reaction. Very often, however, the enterprises were unsuccessful in finding new markets for the discontinued markets and products, or in bringing to market products more favorable than the discontinued ones.

Here I merely wish to mention that also in the course of the 1975 price adjustment an attempt was made to assert the international price ratios domestically, but continual adjustment to these price ratios was lacking, because the price mechanism remained unchanged. Analyses indicate that the reasons for this included the following:

--Because demand exceeded supply, the pressure to sell was not strong enough in the economy;

--Profitability, as measured by international standards, did not become a criterion of successful management.

In their interaction, the weaknesses of the economy and the system of institutions --including also the price system and price mechanism--prevented quick adjustment to international changes.

From the viewpoint of enterprise operations that are motivated by the profit incentive, the competitive price system's basic determinant is the profitability level of nonruble-denominated export, which induces such a volume of sales and, within the limits of market sales, such a division by principal destinations, that will ensure at least a "satisfactory" profit volume for the enterprise (for wage increases and the development fund).

Thus we have here, on the one hand, the entire volume of sales; and on the other hand, the division by principal destinations. In general, an increase of the profitability of export by a reduction that affects the total volume of sales is not feasible or is barely feasible, except when the total market shrinks. For the specific rise of fixed costs can reduce the profitability of nonruble-denominated export as well. In the interest of increasing the profitability, however, the possibility of reducing export sales through a selection of products and markets exists also temporarily, provided the other markets are able to absorb the redirected quantities. Thus a simultaneous improvement of export profitability and expansion of the export volume depend on the extent to which the enterprises are forced to market their nonruble-denominated export; in other words, on the following:

--What other marketing opportunities exist, especially domestically;

--How sensitive is the enterprise's production cost to changes in the production (marketing) volume.

The higher the proportion of fixed costs within the total cost, the greater is the cost pressure to maintain or expand the sales volume. When the proportion of variable costs is high, this pressure is considerably smaller. For this very reason, metallurgy would have been better able to tolerate a slight decline of prices if this had not been accompanied by a significant reduction of the sales volume; just as the clothing industry is less able to tolerate lower prices than a possible decline of the sales volume.

If price-sensitive producers have an opportunity to improve the profitability of their export parallel with a reduction of their export volume, and if they simultaneously are able to redirect a proportion of their export sales to the domestic market, then the price mechanism can indeed counter the other effects aimed at an expansion of nonruble-denominated export.

The effect of the modifying regulations that are intended to promote expansion of the export volume likewise depends on how much idle capacity is available for export production, respectively on how much convertible capacity within the enterprises' total capacity can be used to expand capitalist export, and on the extent to which the market conditions for an expansion of export are given. Suspension of the obligation to observe the limit of the export-price level or to calculate the export price index--in case of a specified expansion of the export volume--must lead to a significant reduction of the contradiction between the incentive to improve the profitability of export and the incentive to expand the export volume.

A frequently cited problem is that the enterprises--in the wake of product and market selection--very often discontinued also exports that fell below some lower limit of profitability only at the given enterprise but were still profitable from the viewpoint of the entire economy, because another enterprise exported also products whose index of hard-currency earnings was lower, but still better than that of other products exported by this other enterprise. One cause of this situation is identified as the temporary variable production-modernization subsidy that many of the enterprises receive, enabling them to export profitably at a different level of the index of hard-currency earnings. This argument is valid only if the products of the two compared enterprises are mutually competitive on export markets. In the absence of this condition we have two sovereign decisions based on enterprise profitability. Such competitive situations rarely occur in practice.

Today it is still doubtful that different amounts of production-modernization subsidy affect the situation of the enterprises, but at the start of the new price system the profit included in the domestic prices was determined in inverse proportion to the amount of production-modernization subsidy that was deemed necessary. Assuming that the starting prices were set correctly, the same rate of increase in the profitability of export (i.e., of the index of hard-currency earnings) can mean only the same percentage points of increase in domestic profitability, but not the attainment of the same level.

Since the various temporary special subsidies will be phased out by the end of 1984, this issue will become a moot one.

The more detailed a regulation to provide guidance in advance for specific cases, the more unregulated specific cases arise, necessitating a further expansion of the regulations. Until finally only the legislators will be able to find their way in the maze of regulations that must be applied by thousands of employees at several hundred industrial and commercial enterprises in the course of their everyday work. Such over-regulation is true especially in conjunction with the export price index limits.

We would not recommend in any case a further proliferation of guidelines on the computation of the export price index, to provide answers for more specific cases. In our opinion, the present three limits should be reduced to two: to monitoring the profitability of export, and to applying the import price limit to custom production. Two-thirds of industrial export is profitable already now under the normative tax rebate, and the present regulations call for phasing out by the end of 1984 the temporary production-modernization subsidies. Therefore it would be more expedient to essentially let the entire competitive price mechanism be controlled already now on the basis of export profitability, and to exclude from control the computation of the export price index that poses a considerable administrative burden and cannot be regulated unambiguously for the different groups of enterprises.

To emphasize the importance of treating the profitability of export preferentially, we present some ideas borrowed from an interview with Rezso Nyers.

"From our present difficult situation, which has been created by external conditions, we can extricate ourselves only by improving the international competitiveness of our production. First of all because the changes in the world economy have indirectly

weakened the competitive position of our export. And secondly because the manipulation of import is only a passive defensive weapon; an active weapon can only be export and its improvement. Expansion of the domestic market is naturally of decisive importance for the economy's development, but in our given situation a significant increase in domestic consumption is feasible only if our ability to compete internationally improves. Central management of the economy can contribute to all this not by the preferential treatment and stimulation of export, but by asserting even more broadly the principle of economic effectiveness, and within it the principle of profitability. The task of central regulation to achieve our objective is really twofold: to gradually raise the requirements of effectiveness, and simultaneously to broaden entrepreneurial freedom to engage in profitable businesses, the opportunities for practical activity, and to dismantle the perhaps open, but mostly concealed, barriers to entrepreneurship."

In the interest of ensuring equal conditions it appears necessary to make more favorable the competitive situation of the enterprises that market a larger share of their production in a wider assortment, in comparison with the enterprises that export only one or a few products that account for only a small proportion of their total production.

A frequently voiced complaint against the pre-1980 price system and system of regulation was that the situation of the enterprises whose exports were significant was the least certain, often less favorable than the situation of the nonexporting enterprises. Prominent among the factors that hampered the operations of such enterprises was the continuous cascading of increases in the prices of the semifinished products, supplies, parts, etc. purchased from nonexporting enterprises; this greatly increased the costs of the exporting enterprises, without any possibility of recovering these higher costs on the export markets. This situation has changed only partially. Since pricing based on production cost is employed very widely among the producers of the mentioned products in particular, the one-sided passing on of costs unalterably remains a real threat.

The 6-percent limit on the profits of producers in the noncompetitive sphere (and 9 percent in the service industries)--incidentally, numerous exemptions from these limits are possible--can prevent passing on only profits higher than these limits; but in view of the fact that the profits are based on costs, the pressure to reduce costs remains far less than at the enterprises employing competitive prices. The profitability of the exporting enterprises is influenced to a large extent by good or bad cost control at the suppliers that provide the purchased semifinished products, parts, etc. at a high degree of fabrication.

The new price system and price mechanism have again focused attention on the question of organizing the enterprises' foreign-market relations in those areas where foreign trade is the right and task of specialized enterprises. Since enterprise profitability depends on the profitability of nonruble-denominated export, the production enterprises' demands have increased considerably regarding foreign-trade work in general, and pricing on foreign markets in particular. That there were considerable reserves in this area was widely demonstrated by the 1980 export price indices. But the production enterprises' economic interest in raising the export-price level remained high in 1981 and can be expected to remain so also in the coming years. By taking all the factors into consideration, the production enterprises are able to

determine fairly easily, for example, how much change in the export-price level (calculated in forints) they need to maintain their profitability or to increase it (so as to raise wages), at a certain (planned) volume of sales and its planned breakdown by destinations.

#### Some Relationships Between the Other Elements of the Price Mechanism and System of Regulation

The enterprises' operations are influenced simultaneously, jointly and in interaction, by:

- The price system and system of regulation (including exchange-rate policy);
- The domestic and foreign market conditions; and
- Changes in the situation of the markets.

Through profit or the funds that can be formed from profit, prices as a central economic category are very closely linked to practically every important area of enterprise decisions. However, this relationship often functions inversely: in many instances prices and enterprise price policy are expected to solve problems that the price system and the price mechanism are neither qualified nor able to solve.

Because the rise of personal incomes is tied to profit (to the wage development indicator) in its present base-approach form, there is strong economic interest in increasing enterprise profit. Among the possible sources of increasing profit (raising the volume, changing the product structure, transforming the market structure, reduction of personnel, cost reductions, improvement of quality, etc.), raising prices generally is regarded as the most obvious. The more meager the prospects of success in other areas, the greater the pressure within the enterprise to increase profit by raising prices.

On the other hand there is the formulation that on the world market the price mechanism imports inflation despite the profitability and price-level limits, if the enterprise succeeds in achieving at least a price increase to compensate for the rate of inflation. It is fortunate that this formulation adds the qualification: disregarding the effects of exchange-rate policy. It is not permissible to disregard this effect, because to do so would assign to the price mechanism a task in curbing inflation that cannot be solved solely within the framework of the price mechanism. If we consider that since the mid-1970's the increases in the prices of raw materials and sources of energy significantly exceeded the rise in the price level of most industrial finished products, then it is more probable that the compensation of the inflationary rise in the prices of materials (without disregarding the effects of exchange-rate policy) is not an easy "automatism" in the case of most finished products.

According to the latest regulations to stimulate an increase of the export volume, the enterprises may retain their properly achieved domestic profitability and price level, even if the profitability and price level of nonruble-denominated export decline. Since according to the basic regulations the profitability of domestic sales generally cannot be higher than the profitability of nonruble-denominated export, from the new regulations it follows that the profitability of the expansion of export can be lower than what the enterprise achieved on average during the past period. In some instances also the expansion of export motivated in this manner will

require investment. Credit policy, too, should support these export-expansion intentions of the enterprises. But the profitability requirements of the credit policy directives appear to be in conflict with such support.

The new profitability requirement in the case of investment credit is generally 15 percent. Preference is given to the investments that are recovered autonomously, from the development fund generated by the investments, during the term of the credit.

#### Exceptions

When considering the two-year experience with the mixed price system and price mechanism, there are three things we must not overlook.

1. The price system and price mechanism that we employ are not functioning under conditions of real competition. Instead, they are functioning in an economic environment in which the export prices we attain on international markets, respectively the level of profitability realized in these prices, represent the conditions of competition, and official regulations determine the mode of the mandatory simulation of enterprise behavior. This includes the fact that temporarily the regulations are not equal for every sector or enterprise, because we are aware of our products' limited competitiveness on world markets.

2. We cannot overlook the fact that the introduction of a price system geared to foreign-trade prices occurred in a period that is not favorable from the viewpoint of international trade. The general recession characteristic of most industrially developed countries and of the majority of the developing world, and particularly the sharp decline in certain commodity groups on international markets are external conditions which mean that the principles of the new price system are being tested under generally unexpected extreme conditions.

3. At the time of the new price system's introduction and since then, it has become necessary on several occasions to apply special rules, partially to certain groups of enterprises (for example, to the clothing industry at the time of introduction, to engineering enterprises in 1980, to metallurgy in 1981, etc.), and partially to certain commodity groups (for example, to the pricing of spare parts). The question arises whether these exceptions do not constitute a return to the previous mechanisms' practice of specific intervention (subsidization and taxation). Although it is still too early to form a final opinion regarding the direction of development, the fact nevertheless remains that after 1 January 1980 many of the enterprises would have been unable to stand their ground, without serious losses, on the altered international markets, with only the normal, average tools and under the normal conditions of business activity; and that temporarily only some exception (subsidy) enabled these enterprises to avoid business difficulties that would have stemmed from a rigid interpretation of the new mechanism's rules. (In a substantial proportion of the sectors granted exceptions, international competitors in other countries also are relying on aid from their governments.)

In spite of all this, we believe that special corrections--whether they apply directly to the price mechanism or allow corrections in other areas (for example, in wage increases) because of the price mechanism--will undermine the entire price mechanism if they become standard practice. We fully agree with the findings of



Katalin T. Forgach: "... it is to be feared that manufacturing enterprises will attempt to alleviate in some way the contradiction between the worsening profitability of the products they export on the one hand, and the 'expectations' arriving through formal and informal channels and urging a dynamic expansion of hard-currency export, on the other hand. In other words, manufacturing enterprises will attempt to 'explain'--before the forums available to them--why the export of some of their products is uneconomic. In the interest of maintaining export, they will apply for special consideration, and thereby they will inevitably further undermine the regulation system's so frequently voiced principle of normativity."

A prerequisite for the distortion-free functioning of the basic principles of the new system for managing the economy that was introduced in 1968, of the enterprises' profit incentive, is that profitability reflect the levels and differences of economic effectiveness. This requires a price system that is able to fulfill the role of market control and resolve the differences between supply and demand, without special government intervention. Temporarily this role can be filled also by the present simulation mechanism. However, a grave danger of every such mechanism is that it provides wide room for interventions that "merely represent a change of the regulations" but does not exclude also real interventions (subsidies and taxes). The increasing number and extent of such interventions indicate that it is absolutely essential to convert the present simulated mechanism into real market conditions, by expanding import competition. The development of the product structure, the increased production of more valuable commodities, likewise cannot be imagined under the present system of participation in the international division of labor that in many areas gives domestic producers a monopoly to produce, and assigns them the obligation to supply the population with, many products whose importation could free capacities for export production. All this of course requires time, but there is not so much time available that we should not start now.

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## CAUSES, REMEDIES OF POLISH FOREIGN TRADE PROBLEMS DISCUSSED

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[Text] The serious economic strains that Poland has suffered during the past decade have had their sociopolitical consequences. The crisis manifests itself in our economic life in various ways. It is expressed in structural disproportions, in the market imbalance of the means of production and consumption, in the decline in labor productivity and in the ineffective system of labor organization and economic management. The use of our economic relations with foreign countries is an important tool for easing economic tensions. If our foreign trade is well developed, it can significantly help to resolve our basic economic difficulties. To a certain extent, the resolution of our economic problems in 1971 is an example of this. The question is, in our present economic situation, Why is foreign trade increasing some tensions and complicating relative stability?

At the beginning of the 1970's, the foundation of Poland's economic strategy was both the broadening of economic ties with other socialist states and, given the improved political climate in Europe, the opening up of the economy to the markets of developed capitalist countries and Third World countries to a greater degree than in the 1960's. The primary motive of this approach was the desire to modernize parts of the production apparatus and to strengthen Poland's position on the international goods market (an increase in export to the markets of developed capitalist countries was indispensable for an increase in investment import and in modern technology). Consequently, Poland's current strategy of economic development is not that foreign trade will supplement the needs of the economy but that it will function as an active sector, operating to increase the national income, functioning in proportion to the development of the economy and maintaining its own assortment of specializations within the framework of the international division of labor.<sup>1</sup>

## Some Experiences From the 1970's

In the economic strategy of the 1970's, foreign trade was rightly treated as another sector of the economy. Its potential for stimulating an increase in

national income and for restructuring the economy was recognized. It was correctly assumed that economic self-sufficiency and forcing substitutions for imports are irreconcilable with the rationalization of management when an economy has reached a certain level of development. Under a centralized system of management, economic self-sufficiency is justified in the initial periods of industrialization and when external conditions are unfavorable. However, when the production structure is more developed, modern technology is introduced and the need to specialize arises, it is detrimental to the development of an economy to abandon its specific role in the international division of labor. The tensions in Poland's economy and the reduced growth rate of the national income at the end of the 1970's are concrete evidence of this.

The basis of the new concept of foreign trade was the assumption that the intensification of export as an indispensable source of foreign-exchange resources to cover growing import needs (primarily investment means and modern technology) is a necessary condition of the significant revitalization of economic ties with developed capitalist countries. In order to fill the temporary gap between a rapid export rate and our still more rapidly increasing import needs (to rebuild our production apparatus), we have taken advantage of the favorable trade situation on the international capital market to negotiate for credit.

Although this was basically a sound assumption, it had two weak points, which were not sufficiently attended to in the first half of the 1970's. First, it was tacitly assumed (on some unknown basis) that the trade situation on the international commodities market in developed and developing capitalist countries would be very favorable (as in the first half of the 1960's and at the beginning of the 1970's). Second, it was taken for granted that adopting the principle of self-payment for investments implemented on the basis of foreign credit would automatically solve the problem of indebtedness. These matters are closely associated with one another. Many mistakes made in domestic economic policy have led to the crisis in our country. They include the excessive push given to investment and the simultaneous increase in consumption (while labor productivity declined), the inappropriate structure of investment and production and the related importing of technologies, and the lack of development of production designated for export as a fundamental condition of a rational policy for incurring credit. When the economic situation in the West declined, it became difficult for us to place our commodities on this market, not only so-called salable items but also self-payment commodities. Some goods were harder to place than others. However, the concept of the self-payment of investment programs fails not only because they are improperly implemented (long delays in the implementation of investments, failure to achieve full production capacity, and improper raw and other materials supply and the like).

It was stressed many times during the 1970's that the Polish economy should take a pro-export turn. Investment programs based on self-payment were to serve this purpose. In practice, the opposite decisions were made during the 1970's. The changes in the growth of fixed production assets in our economy and in the export rate, generally confirm this statement. If we

adopt the year 1970 as a base, the increase in fixed production assets in constant prices in 1975 was 146.7 and in 1978, 191.9. The corresponding indexes for the increase in export were 166.4 and 198.2. However, using 1975 as a base, we arrive at an index of 130.8 for the increase in fixed production assets in 1978 and an index of only 119.1 for the increase in export. The average yearly changes in the growth rate of fixed production assets from 1975 to 1978 ranged from 109.8 to 108.6, while for the same period the index of the export rate fluctuated between 108.3 and 105.7. During the second half of the 1970's, there was a departure from the emphasis on export in our economy. Hence, from 1966 to 1970, for every 1 percent increase in domestic production, export increased from 1 percent to 1.5 percent. From 1970 to 1975, the export index averaged 1.03 percent; from 1976 to 1979 it was less than 0.95 percent. In other words, during these 4 years, the rate of production increase, although slight, was greater than the rate of export growth.

The energy crisis and the economic decline in the West between 1974 to 1975 should have been a sign for us to make some changes in our foreign trade policy regarding developed capitalist states and developing countries. Such a step ought to have led to the broader use of export incentives together with the rationalization of import. Meanwhile, decision makers reacted by returning to a centralistic system of management, which is an easy step but unsuccessful and inefficient in the long term. The so-called WOGs [Large Economic Organizations] were deprived of a whole series of prerogatives in the actual management of production. Changes were made in its structure, and the freedom of the WOGs to operate on the foreign market was restricted. The centralization of decisionmaking in the operation of small- and intermediate-scale industry deprived large-scale industry of an important coproducer, the domestic market--suppliers of goods and indispensable for daily living--and it also deprived foreign trade of one of its important sources of mass goods for export. Unfortunately, the statistics do not separate the share of small- and intermediate-scale industry in our export structure. However, without a doubt, their share in total export is a great deal smaller than their potential both directly and indirectly, as subcontractors in the coproduction system.

In our economic practice, especially during the second half of the 1970's, we have been forced to rationalize imports when we failed to fulfill export tasks on the scale of the entire national economy and have suffered the financial consequences of too large a gap in our annual balance of payments. At the same time, decisions about import restrictions (which were really decisions about import rationalization) were most often centrally made. They did not take into account all of the export conditions and consequences for particular ministries, associations and large factories. Such "rationalization" has a very negative impact for several reasons. It limits the possibilities of more fully utilizing the production capacity of plants that operate partly on the basis of imported raw materials and import spare parts and details for finished products earmarked for export. It makes it difficult for us to discharge our foreign trade obligations. It also makes it impossible for us to meet quickly the foreign demand that our industry would otherwise be in a position to cover. It becomes a vicious circle;

import restrictions reduce the supply of goods for export and this in turn has an impact on the total export implemented for the given year. As a result, the gap in the trade and payments balance was not diminished at the expected rate. Only in 1978 and 1979 did the rate of increase in import clearly fall behind the rate of increase in export. This does not take into account the negative impact of such a policy on the effectiveness of foreign trade or the increase in social costs of domestic production.

The rationalization of import in a socialized economy is not a one-time measure but a definite process in economic policy with a multidirectional impact. Properly understood, the rationalization of import is a function of a country's program of production specialization and of the degree of its coproduction ties with foreign countries, both in intrasubsector and inter-subsector terms.

Can our economy afford now to implement this sort of import rationalization? In the past decade, certain phenomena have begun to occur in the development of the Polish economy, greatly complicating the consistent rationalization of import, sometimes making it impossible. One of the properties of industrial development in our country (in branch and subsector terms) is its so-called packaging; that is, the tendency toward the development of entire industrial branches in order to produce everything possible within the given branch or subsector regardless of the related production costs, the shortage of raw materials and the lack of experience or of the domestic potential regarding the investment means indispensable for production of specific items. For example, as the chemical industry developed, it produced not only those chemical agents for which it had the experience and the raw materials (at most, importing the modern technology) but also highly energy-intensive agents for which the raw materials were lacking and for which most of the production equipment had to be imported. "Packaging" in excess of our economic potential and the constant expansion of the assortment structure of production within a given branch or subsector have a negative impact upon the structure of Polish foreign trade, especially in the import field.

Thus, it is not strange that the import of material and nonmaterial technology, primarily from developed capitalist states, had a negative impact on import instead of fostering export, contrary to the strategic assumptions of the early 1970's. Of 108 licenses brought into our machine industry, only 38 may be considered pro-export licenses. In 1978, 65.4 percent of the production in the chemical industry based on Western licenses was of an anti-import character. Most production based on licenses from developed capitalist countries in terms of the value of export produced under license in 1978 was 51.6 percent in the machinery industry, 75.9 percent in the heavy and agricultural machinery industry and still higher in the chemical industry.<sup>2</sup>

Such an industrial policy appears to be a specific form of return to economic self-sufficiency or a so-called policy of autonomous development. Given our current economic potential, this is inefficient and even detrimental. Foreign trade loses its active role and is subordinated to goals from a policy of industrial development based on the packaging principle. On the

other hand, import rationalization gives foreign trade an active role and operates toward increasing specialization in the structure of production and developed industrial coproduction.

The growing import-intensiveness of production and the national income is an example of irrationality in our import policy during the past 5 or 6 years, which confirms the policy of packaging in Polish industrial development. The import-intensiveness of the national income declined from 34.8 percent in 1976 to 31 percent in 1978 but is still too high to be considered satisfactory. The index of import-intensiveness in final production is an example. From 1979 to 1976, it increased from 17.7 percent to 22.4 percent; at the same time, the growth rate of import was the highest for the entire postwar period. In 1979, this index remained at its 1976 level despite a marked decline in the import rate toward the end of the 1970's.

Supply import, which increased systematically despite import restrictions after 1975, plays a decisive role in this field. In 1977 it represented 64 percent of our total import. The next year this rose to 67 percent; in 1979 it exceeded 70 percent. Import restrictions mainly affected market goods and investment import, but supply import could not be restricted since the proper functioning of modern plants, most of which based production on imported supplies, depended on it.

As a result, supply import in recent years amounted to 74 percent of our total annual export and it equaled 100 percent of our export to capitalist countries. Meanwhile, the structure of export to developed capitalist states continues to be unfavorable, since raw materials and semifinished goods predominate. If we consider that restrictions on our investment imports (especially from the payments II area) were reduced from 21 percent of our total import in 1978 to 18 percent in 1979, then scarcely 11 to 12 percent of our total import remained for the import of market goods indispensable to domestic market equilibrium. Thus, the possibilities are very limited for the emergency supplementing of the goods supply on the domestic market with imports.

Thus, the Polish economy feels the effect of import more than other countries with the same economic potential. Failures in the implementation of investment programs based on the principle of self-payment and the irrational import structure have placed a relatively great burden on the payments balance (especially regarding the payments II area), already out of kilter for some time. However, since a significant part of our export production is based on imported materials supply, there is obviously pressure on increasing import.

Our trade balance deficit and consequently our payments balance increase from year to year. We have tried to cover this by an active credit policy on the Western capital market. By incurring credit, in the first half of the 1970's we were able to achieve relatively favorable access to this market along with a fairly reasonable interest rate. It made sense to take advantage of this opportunity, but in a rational manner and according to our ability to pay. Our first failures in self-payment investments, our inability to

increase export radically and the great fluctuations in the economic situation of Western states should have made us cautious about incurring further indebtedness. Such decisions at the end of the 1970's were insignificant to our economic activity since our lack of other sources meant that we had to incur new credit to make our installment and interest payments on credit extended earlier. In this way, Poland's indebtedness to the Western capital market, now running more than \$24 billion, is a sort of inherited voluntaristic economic and credit policy. In addition, because of the decline in economic activity and the limited possibilities for export growth, Poland is doomed to further indebtedness during the next few years.

In the 1970's, in order to cover part of the growing burdens emanating from debt and from a long-standing trade balance, more than once the central authorities took the relatively easiest step, with negative social consequences. Those goods with a demand abroad were removed from the domestic market. This had to be done since we had no other way of discharging our foreign obligations. It is not an entirely negative phenomenon when the domestic market has adequate reserves and when supply and demand on this market are balanced (this means partial, not total, equilibrium). However, such moves have a negative impact, primarily in a social sense, when the balance of particular goods or groups of goods on the market is very tenuous or when there is a shortage of them. In such a situation, removing even 5 percent of the goods from the market seems to create a much more severe shortage than it actually represents because of such psychological and speculative factors as irrational buying and selling under the table. Such situations create social tension, dissatisfaction and the depreciation of real economic achievements.

Apart from this, it is hard to understand why there is still the irrational belief in economic practice that the economic effects of the domestic market are less significant than the foreign market. While the intensive industrialization and modernization of the economy demands an enormous amount of foreign-exchange means, a poorly operating domestic market has a crucial impact both on the increase in social tensions and on the decline in labor productivity, work discipline and the like. While it is not the sole factor, it is a vital one.

Indeed, there is no contradiction between the role of the domestic market and export market in the developmental process. Domestic market stability and enrichment (finished products, raw materials, spare parts, semifinished goods) are contingent upon a pro-export economy. If our import capability is based on our export volume, then a more rational international division of labor, the fuller utilization of production capacities (in the investment goods industry, for example) and the stimulation of a higher degree of goods processing for export will certainly increase this capability. Moreover, a strong position in the export field will create more favorable conditions for Poland on the international credit market in import activity.

#### Problems of Foreign Trade Effectiveness

The effectiveness of foreign trade is, to an equal degree, the result of a properly formulated import-export structure and of the implementation of

valid assumptions in foreign economic policy. An irrational import policy and the limited export potential of the Polish economy in terms of material structure have made our foreign trade much less economically effective than anticipated.

The methods used in Poland to calculate this effectiveness are faulty because of no real basis for comparing the prices of exported and imported goods and because of the shortcomings of the existing system of foreign trade organization and management. Thus, we can only estimate the effectiveness of this sector and define its tendencies but we cannot calculate its effectiveness accurately.

The profitability of Polish export as a basis factor of the effectiveness of foreign trade has worsened.<sup>3</sup> Many factors caused this, especially during 1979. They include a relatively higher share of unprofitable commodities in export (about 20 percent on the markets of socialist countries and 35 percent on the markets of capitalist countries in 1979), the more rapid increase in the price of imported goods over exported goods (especially the price of imported supply goods), the unfavorable changes in the subsector and assortment structure of export, especially to the payments II area and the increase in domestic production costs (the increase in wages and depreciation). Export profitability computations for recent years show that the export of products of the electromachinery, chemical and fuel industries is profitable, while the export of products of the metallurgical, light and food industries and farm export are unprofitable. However, within the framework of this second group of industries there is a whole series of goods, even groups of commodities, whose export is highly profitable. This confirms the thesis stated earlier that our foreign trade policy was not selective enough regarding the development of the proper export structure.

It has been emphasized that certain institutional factors have a great impact on the effectiveness of Polish foreign trade. These include the foreign trade apparatus, the extent of its ties with the manufacturer and its activity on the international market, with which the system of foreign trade organization and management is associated. While it is generally accepted that the centralization of foreign trade as a function of the state monopoly in this field is not an inherent property of the socialist system, this is not always implemented in practice. Both the Yugoslavian experience and the Hungarian experience of the past decade confirm this. The degree of centralization in decisionmaking is a function of the degree of centralization or decentralization of the socialist economic model.

At the same time, the Polish economy has ties with two different types of markets. For this reason, the decentralization of decisionmaking in foreign trade should overtake the degree of decentralization implemented through the entire economy. This emanates from the very essence of the activity of the foreign trade apparatus as a middleman between the domestic producer and the foreign market. This apparatus must be very efficient and adaptable to changes in the international market. It should also have the skill to gauge supply and demand, world market trends and marketing accurately. It must also have the freedom to influence domestic producers to manufacture



goods in a volume that will move on the international market and to base their import policy on rational premises. A trade apparatus functioning in this way makes it possible to approximate the scope of the efficiency and effectiveness of its operation. When the functions of the foreign trade apparatus are properly defined, it is possible to determine the degree to which it is responsible for successes or failures in foreign trade and the degree to which this responsibility falls on the producer.

The results of Polish foreign trade in 1979 are significant in this regard, although 1979 is atypical. Despite the unfavorable world economic situation that year, total world export increased an estimated 25 percent. Assuming that 18 percent of this increase was the result of a price increase, real growth was 7 percent. In the case of Poland, export increased 12 percent in 1979, of which 10 percent represented the increased prices and less than 2 percent, real growth. To what degree was the foreign trade apparatus responsible for this situation (accurate gauging of the market, properly negotiated prices and partly the commodities structure of export) and to what degree does the responsibility fall upon the producer who sometimes failed to supply the proper assortment of goods for export or provided an insufficient quantity or inferior quality of goods? The foreign trade apparatus announced that there was a shortage of bulk goods salable on the international commodities market. However, it did not counteract the export of unprofitable goods.

The forms of foreign trade organization are also significant. For many years there has been the mistaken idea that the foundation of effective foreign trade operation is a universal foreign trade schema. In the extreme this becomes the assertion that the foreign trade apparatus should be highly centralized in order to secure the effectiveness of its operation or, in the views of others, that it should be maximally decentralized. It is easy to prove that both positions are in error and that they do not take into account the real needs and situation of the international commodities market:

--Only those economic organizations large enough to bear a significant part of the marketing costs and to have available enough variety in their structure of goods to compete with foreign firms can operate effectively on the international market.

--An economic organization must be set up to be adaptable to a changing international market, to influence a producer both to produce the right bulk goods for export and to reduce the import-intensiveness and the energy-intensiveness of production and to help a producer select profitable export products.

--There must be a series of incentives for export production so that a producer goes into production of certain items not via a system of commands from the central authorities and not because it has been coerced by the foreign trade organization but because such production would benefit the producer in his ongoing activity. The issue here is to set up the economic principles of a system of motivation for export production and the rationalization of import supply.

--In the field of mutual relations between the foreign trade organization and the domestic producer, it is not a question of both economic organisms having the same organization or system of management but of both types of units

ministering to a community of interests. Only then may we speak of real partnership and cooperation between the domestic producer and the foreign trade apparatus.

--The common interest and partnership of the foreign trade organization and the producer demand that the latter participate to a greater degree all phases of import-export decisionmaking. This will have a crucial impact on the changes made in the current structure of production and on the directions of development taken by the production plant, on technological innovations and the like. At the same time, it requires that plants producing for export have at their disposal the appropriate specialists to aid import-export decisionmaking (although the level of these decisions rests upon many factors).

On the basis of the preceding assumptions alone (and there are others), we may conclude that no universal solution in the organization and operation of foreign trade can be an effective instrument for its efficient operation. Enterprises operating on the international market in bulk goods trade, especially raw materials, should have a different system of organization than enterprises specializing in trade with a high degree of individualization (single items or short series of items); still a third form of organization is appropriate for foreign trade enterprises dealing in the export of small- and intermediate-scale production and the like. The diversification of organizational structures is also suggested by such factors as the properties of goods involved in international trade, the degree of dispersal of producers and the share of product labor in exported and imported goods.

State efforts at the beginning of the 1970's toward some degree of decentralization in import-export decisionmaking and toward the structural diversification of our foreign trade apparatus were suddenly halted after 1974 somewhat irrationally. Instead of adapting foreign trade policy to the changing conditions on the international commodities and capital market, primarily in the direction of a more rational import policy, authorities returned to centralistic decisionmaking in import-export policy (which hamstrung the trade apparatus and the manufacturer) while continuing to be liberal--at the central level--especially in import policy. Meanwhile, the incentives for increasing export production (which functioned until the present) did not play the expected motivating role; liberalism in import was accompanied by an overly slow growth rate in export.

#### Direction of Change in Foreign Trade

At present, it is difficult to make unequivocal proposals for changing the role and operation of Polish foreign trade. We are aiming at a marked improvement in the effectiveness of our foreign trade. This will have a fundamental impact on the restoration of economic equilibrium, especially market equilibrium and the kind of development of specialization, that will in turn improve Poland's economic position in the international division of labor. At the same time we must realize that all changes in our import-export policy or in the organization of our foreign trade apparatus must be made. They must take into account all the abnormalities and tensions in the economy, and especially in foreign trade. This is why we speak of the directions to be taken by the economic apparatus toward the better utilization of the

foreign sector in the development of our economy and toward the restoration of domestic equilibrium. On the basis of what we have said, we can point to the following directions of activity:

1) In the economic strategy of the 1980's, a more active role should be restored to our foreign trade. This emanates both from the level and the differentiated structure thus far attained by the Polish economy and from the degree of its modernity. Domestically, the active role of foreign trade must be expressed in terms of the selectivity and increased specialization of production, the more rational selection of the production structure for export, the more rapid utilization of imported technology and well-chosen incentives to encourage manufacturers to undertake export production. On the international plane, our foreign trade apparatus must operate most efficiently, rapidly adapt to changing conditions and needs of the international market and transmit international market incentives quickly back to the manufacturer.

2) Given the critical situation in our balance of payments, especially with developed capitalist countries, as well as our needs in the area of supply imports, we should step up the development of export, using all available means. In view of the lack of equilibrium and the tensions on the domestic market, this pro-export stance is really very difficult but not impossible. To date we have not exhausted all the export potential within investments in the machine industry, the electromachinery industry, the transportation industry, the construction machinery industry, certain subsectors of the chemical and textile industries and small-scale and intermediate-scale production. Nor can we escape the necessity of incurring new credits earmarked exclusively for export production. We should also set up the indispensable legal conditions for cooperation with the enterprises of other socialist states and with interested firms from capitalist states in the management of some investments already under way, and of imported machinery and equipment, a large part of the production from which can be earmarked for export.

3) We must aim to eliminate failures emanating from the investment program based on the self-payment principle. The concept itself was valid; the failures were the result of improper programming, a certain voluntarism in the selection of investment projects (the failure to consider the domestic potential of our economy), a lack of production discipline and the repayment of our obligations on this account from other sources (nearly 50 percent).

4) One of the main problems requiring immediate solution in our foreign trade policy is marked reduction in the import-intensiveness index of production (the national income). This index is too high; consequently, it limits the potential of foreign trade as an instrument for eliminating the tensions in our economy that arise in the process of economic growth. Since the import-intensiveness of production is largely expressed in terms of the major share of supply import, every reduction in the growth rate of import must have a negative impact on investment import and the import of market goods. The solution to this problem is not a one-time action. It requires the revision of the investment programs be implemented in the first half of the 1980's as well as the gradual shift of now operative production plants to material- and energy-conserving production (particularly those plants producing on the basis of imported raw materials).

5) The effectiveness of foreign trade is too low in relation to Poland's economic potential. This is the result of an improperly structured system of import and export prices (e.g., the method of calculating them and the price of raw materials and finished products), the lack of uniform selling and purchasing prices (comparable to prices on the international market) and certain improprieties in the functioning of the foreign trade apparatus and its ties with the manufacturer. The economic system of foreign trade should be based on real principles; that is, it must function on the basis of cost-effectiveness, whose fundamental parameters are prices (producer and selling prices adapted to international market conditions), a real currency rate of exchange, interest rates on fixed assets and credits, wages, tax schedules, duties and compensatory charges and the like.<sup>4</sup> However, this kind of change cannot be made in isolation from basic reforms throughout the entire economy. They must be an immanent component of this reform. Other limiting factors in this field, at least at present, are allotments of foreign-exchange funds for subsectors producing for export as well the distribution of most imported raw materials and the lack of indispensable hard currency reserves to ensure the functioning of a real rate of exchange for the zloty. This is why partial solutions, consistently leading to ultimate solutions, are particularly significant. These solutions concern pricer reform in foreign trade, the scope of central control of the economy in conjunction with the greater autonomy of producers-exporters and foreign trade enterprises, the preservation of the command system regarding basic raw materials in import and export, the preservation of certain differences in the trade mechanism on the markets of socialist and capitalist countries and the expansion of the freedom of larger economic organizations to take direct action in the foreign market and the like.

6) In the evaluation of the effectiveness of Polish foreign trade, vital importance will be attached to efforts to improve the management of foreign trade, together with the system of evaluating its activity, and to the preparation of the appropriate measures for evaluating the activities of production enterprises, particularly where export production and the utilization of imported goods by these enterprises are concerned. Not only will this make it possible to tie in the producer's interest with the foreign trade apparatus more effectively but also it will create the possibility for determining the degree of responsibility of the parties for failures in foreign trade. Ministerial particularism dominated the previous system of foreign trade organization, especially decisionmaking. Basically, it bogged down with hastily considered investments and with the purchase of licenses not fully in harmony with domestic economic conditions and potential. The current changes in foreign trade should move toward concentrating all basic decision making in the Ministry of Foreign Trade as the primary coordinator of Poland's economic relations with foreign countries. However, such a solution presumes the rebuilding of this ministry's apparatus to enable it to operate more efficiently and flexibly on the foreign market with the aid of its units, on the one hand, and to effect closer ties with enterprises producing for export, on the other. These ties include the clear flow of information to the producer, relative to export and import conditions; the quick reaction to changes in supply and demand on the international market; coproduction possibilities with the firms of other states, especially in a third market; help in the selection of a coproducer; and the like. At the

same time, foreign trade enterprises must have a certain freedom to act at their own risk to purchase goods and services and to select a foreign contractor. For a producer-exporter, effective economic incentives and information relative to a producer's possibilities for exporting his products, received with some advance notice, will have basic significance in decision-making.

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The 1980's will be difficult for Polish foreign trade. This is due to the uncertain economic situation on the international market, the increase in raw material prices, the abandonment by many important enterprises of production based on a major share of raw materials and energy, the growing protectionist policy of many states, the unstable monetary system and the like.

The improvement in Polish foreign trade will depend not only on the available ability in our economy of goods with the required technical-utilitarian parameters but also on the appropriate structure to adapt to changes in demand on the international market. In import policy, the problem is not only one of purchasing at the lowest price (although this is an important factor) but more importantly the question of the rational utilization of imported goods.

Increasing and varying bulk goods for export likewise depends upon the degree to which the production of small- and intermediate-scale industry is utilized. However, this means changing both the organization and management of these industries. Not only could small- and intermediate-scale industries carry on export activity themselves (with the help of intermediary organizations) but, by fully entering into the system of coproduction ties, they could indirectly help to stimulate export implemented by large economic organizations [WOGs].

#### FOOTNOTES

1. See J. Soldaczuk, "Foreign Trade and the Policy of Intensified Growth," *SPRAWY MIĘDZYNARODOWE*, 1980, No 12, p 25.
2. "Licencje w latach 1970-1978," [Licenses from 1970 to 1978], Warsaw, 1980.
3. At the same time it should be pointed out that the calculation of the profitability of export is partly conditioned by the use of the hard currency conversion factor, which changed twice in the 1970's. This had some effect upon the accuracy of calculations.
4. A very interesting and sound position on this matter was taken by a team directed by Prof J. Soldaczuk, who has prepared proposals for reforming foreign trade (see *RYNKI ZAGRANICZNE*, 1981, Nos 1-2).